

FOREIGN AID REFORM

Y 4. F 76/2: S. HRG. 103-560

Foreign Aid Reform, S. Hrg. 103-560, ...

HEARINGS

BEFORE THE

SUBCOMMITTEE ON

INTERNATIONAL ECONOMIC POLICY, TRADE,
OCEANS AND ENVIRONMENT AFFAIRS

OF THE

COMMITTEE ON FOREIGN RELATIONS

UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

FEBRUARY 9, 22 AND MARCH 3, 1994

Printed for the use of the Committee on Foreign Relations



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C O N T E N T S

FEBRUARY 9, 1994

	Page
Atwood, J. Brian, Administrator, Agency for International Development	9
Prepared statement	12
Moose, Richard M., Under Secretary for Management, Department of State	3
Prepared statement	5

FEBRUARY 22, 1994

Barkan, Dr. Joel, Professor, Political Science, University of Iowa	124
Prepared statement	126
Bingaman, Jeff, U.S. Senator from New Mexico	44
Prepared statement	45
Bissell, Richard E., Visiting Fellow, Overseas Development Council and American University, Washington, DC	64
Prepared statement	66
Bramble, Barbara, Director, International Programs, National Wildlife Fed- eration, Washington, DC	90
Prepared statement	92
Bruce, Judith, Senior Associate, Population Council, New York NY	83
Prepared statement	86
Capps, Carol, Director, Office on Development Policy, Church World Service/ Lutheran World Relief, Washington, DC	52
Prepared statement	54
Conahan, Frank C., Assistant Comptroller General, National Security and International Affairs Division, General Accounting Office	105
Prepared statement	107
Fraser, Donald M., Institute of Politics Fellow, Kennedy School of Govern- ment	110
Prepared statement	112
Inglee, William, Executive Director, The House Wednesday Group, U.S. House of Representatives	129
Prepared statement	132
Jeffords, James M., U.S. Senator from Vermont, prepared statement	104
Natsios, Andrew, Vice President and Executive Director, World Vision, Wash- ington, DC	69
Prepared statement	72
Rossiter, Dr. Caleb, Director, Project on Demilitarization and Democracy	114
Prepared statement	117
Sewell, John, President, Overseas Development Council, Washington, DC	58
Prepared statement	60
Simpson, Alan K., U.S. Senator from Wyoming	46
Prepared statement	47

IV

MARCH 3, 1994

	Page
Boren, David L., U.S. Senator from Oklahoma	175
Prepared statement	179
Dawson, Thomas C., First Vice President, Merrill Lynch & Co.	261
Prepared statement	263
Ensign, Dr. Margee, Director, Development Studies Program at Tulane University	191
Prepared statement	194
Fishman, Phillip, Assistant Director for International Affairs, AFL-CIO	199
Prepared statement	202
Hardy, John, Jr., Director, Corporate Development and Finance, Brown & Root, Inc., Coalition for Employment Through Exports, Inc.	209
Prepared statement	210
Lieberman, Joseph I., U.S. Senator from Connecticut	182
Prepared statement	183
O'Leary, Richard, Chairman of the U.S. Chamber of Commerce's Subcommittee on Export Financing	204
Prepared statement	205
Reed, David W., Director, International Institutions Policy Program	252
Prepared statement	255
Rich, Bruce M., International Program, Environmental Defense Fund	223
Prepared statement	225
Spero, Joan E., Under Secretary of State for Economic and Agricultural Affairs	150
Prepared statement	152
Summers, Lawrence H., Under Secretary for International Affairs	155
Prepared statement	159

APPENDIX

Responses of Richard M. Moose and J. Brian Atwood to Questions Asked by Senator Pell	271
Responses of J. Brian Atwood to Questions Asked by Senator Murkowski	271
Responses of J. Brian Atwood to Questions Asked by Senator Dodd	272
Responses of J. Brian Atwood to Questions Asked by Senator Brown	273

FOREIGN AID REFORM PROPOSAL

WEDNESDAY, FEBRUARY 9, 1994

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC
POLICY, TRADE, OCEANS AND ENVIRONMENT
OF THE COMMITTEE ON FOREIGN RELATIONS
Washington, DC.

The subcommittee met, pursuant to notice, at 2:20 p.m. in room SD-419, Dirksen Senate Office Building, Hon. Paul S. Sarbanes (chairman of the subcommittee) presiding.

Present: Senators Sarbanes, Pell, Dodd, Feingold, Kassebaum, Pressler, and Jeffords.

Also Present: Robert Lester, Assistant General Counsel, AID.

Senator SARBANES. The committee will come to order. I yield to the chairman of the full committee.

The CHAIRMAN. Thank you, Mr. Chairman. I would like to commend you for promptly calling this hearing on the administration's Peace, Prosperity and Democracy Act to reform the American—the United States Foreign Assistance Program.

Many of us in Congress have called for a long time for a major rewrite of the Foreign Assistance Act of 1961 to reshape our foreign aid program with the needs of the post-cold war world.

Over the last few years, Senator Sarbanes has held numerous hearings and under his leadership the Senate passed the foreign aid authorization bill that took initial steps toward reform. I look forward to working with him, with the administration to enact foreign aid reform this year, and welcome Administrator Atwood and Under Secretary Moose to this hearing. I look forward to their comments. I may not be able to hear them all, but I look forward to reading them after I have to depart. Thank you.

Senator SARBANES. Thank you very much, Mr. Chairman. I will make a short opening statement, and then I will yield to Senator Kassebaum.

I am very pleased to welcome you to the subcommittee's first hearing on the foreign aid reform bill that was formally submitted by the administration just last week, and we have tried to move expeditiously to have at least this opening hearing before the February recess.

Actually, I think it is fair to say this is the continuation of a process that has been going on for some time in varying places and at varying speeds.

Senator Kassebaum has been interested in this issue for quite some time and has made a number of very positive and constructive suggestions, some of which actually have been incorporated

into the existing law. We marked up a bill last year and got it out of the committee, but we were not able to proceed further with it.

In fact, last spring we held hearings in the subcommittee on various aspects of the foreign aid program and the areas in need of reform. We held a hearing on changing priorities in the wake of the end of the cold war, another hearing on the role and the experiences of the PVO's and the NGO's, a third on policies and programs for economic development, a fourth on security assistance in the post-cold war era, and a final hearing dealing with the report of the Wharton Task Force.

These are the hearings that were held over the course of the past year—so in a sense this is a continuation of that process.

I want to commend Administrator Atwood and Under Secretary Moose for the consultation that has taken place between the administration and the Hill. That does not mean there are not concerns about the bill that has been submitted by the administration, but I do think a genuine effort was made continuously to provide an opportunity for input from the Hill and to consult over this legislation as it evolved.

I expect we will do some additional hearings, although I am frank to say it is my own view that we do not need another—at least, I am not at the moment persuaded that we need a long set of hearings, having been through this thing many times and many aspects of it, and then I would hope we could proceed to a markup.

Now the purpose of this hearing is to examine the policy aspects of the proposed legislation. We will not get into specific numbers, which will be addressed by the Secretary when he comes before the full committee following the recess. I think that date has been set for the full committee hearing.

We do not yet have the congressional presentation documents that set out the budget figures by program, and obviously we need those as we deal with the Secretary when he makes his presentation, and I am sure they will become relevant to the task that is before us here.

So gentlemen, we are pleased to have you here, and we will turn to you for your statements in a moment after we hear from other colleagues who are present, and first from Senator Kassebaum.

Senator KASSEBAUM. Thank you, Mr. Chairman. I very much appreciate your interest in this. I do think we took some valuable steps forward last year. As you say, it did not necessarily come to fruition, but I think that it actually became a part of sort of the thinking process that has been very beneficial. I, too, want to commend the administration for a very constructive and thoughtful proposal.

Both of you represent two people who understand well the whole issue of foreign aid, the ramifications of that. Both of you know Africa well, where I think we have seen the pluses and minuses of foreign aid, and that helps guide us perhaps elsewhere as well.

I hope that the administration from the top on down will give a commitment to this, and will help us put together a package that has an efficiency and an accountability that we have badly needed to put into our foreign aid programs.

As both of you know, public skepticism runs high, and I think that we, in order to make sure that we can speak to the positive

aspects of foreign aid, have to make sure we have a product that lends itself to that, so I look forward to working with you, to working with the chairman to see what we can do.

I have some concerns, including the coordination mechanisms in the bill and the authorities in the democracy title. I have visited with Administrator Atwood about these. I think, in particular, that the whole democracy initiative in all of its various ramifications can be a bit amorphous I would say, too, the expansion of the disaster program concerns me. All of these are things we can examine in some hearings and explore right now.

I think, Mr. Chairman, that we do have a unique opportunity to undertake real reform this year, and I have greatly valued Administrator Atwood's interest and dedication to this, and look forward to working with you. Thank you.

Senator SARBANES. Thank you very much. Senator Feingold.

Senator FEINGOLD. Also, Mr. Chairman, thank you.

I want to welcome the witnesses. As I have heard about the efforts that you have made in the past year, I want to be helpful.

I had a chance to mention to people back home, for example, the reduction of missions that have been done in AID. That is definitely the kind of thing that people want to hear, as you and everyone else want it to be part of a rational reformulation of foreign policy and not a meat-axe of the program, so I congratulate you on what you have done this far and laud you in your future tries.

Senator SARBANES. Gentlemen, we are ready to hear from you.

STATEMENT OF HON. RICHARD M. MOOSE, UNDER SECRETARY FOR MANAGEMENT, DEPARTMENT OF STATE

Mr. MOOSE. Thank you very much, Mr. Chairman and members of the committee. It is a pleasure to be here in this committee again, as an individual and with my friend Brian Atwood.

I request, Mr. Chairman, that my formal statement be entered in the record, and I will just summarize it.

Senator SARBANES. Your full statement will be included in the record.

Mr. MOOSE. Thank you, Mr. Chairman. The legislation before you today, the Peace, Prosperity, and Democracy Act, represents the Clinton administration's initiative for achieving the long overdue reform of our international affairs programs, an objective long sought by many members of this committee as the remarks today attest.

Our goal in presenting this legislation is to make foreign assistance and other international cooperation programs function more effectively as tools of U.S. foreign policy. Thus, this is not just another foreign aid bill, it is a foreign policy bill.

The authorities and the accounts in the existing Foreign Assistance Act, based on functional types of aid—for example, foreign military financing or economic support funds—in many instances are no longer appropriate as links between our international programs and our new policy objectives.

As I went through the Foreign Assistance Act, Mr. Chairman, in preparing for this hearing, I came across a lot of familiar language, some of which I may have helped to fashion when I was here.

Those laws, of course, were right then when they were passed, yet many of them appear anachronistic today.

In many instances, this committee led the way in raising the consciousness of the Congress on emerging issues such as peace and democracy environments, sustainable development, womens rights, human rights, just to name a few. Legislation may have been required at that time to raise the consciousness and get the attention of the executive branch.

Today, so many of those issues and the values associated with them have been absorbed to the point where a fairly broad bipartisan consensus exists on operating values—values which are accepted by the executive branch.

The new Peace, Prosperity and Democracy Act, then, represents an effort not only to update and to rationalize our foreign assistance authorities, but also to place those authorities in a framework that ties programs to the objectives of President Clinton's foreign policy.

In turn, we believe this will make it easier for the Congress, easier for the executive branch to administer the laws, makes it easier for the American people to understand how their international programs are relevant to their concerns, to their aspirations, and to their well-being. This act, this new act is organized around six mutually reinforcing strategic objectives: promoting sustainable development, building democracy, promoting peace, providing humanitarian assistance, promoting growth through trade and investment, and advancing diplomacy.

As the committee will see, the administration's function 150 international affairs budget is built around the same six objectives. Indeed, they are inherent in the overall title of the bill—Peace, Prosperity, and Democracy, and they name the first six of the interior titles of the bill.

Secretary Christopher led the process which shaped the 150 budget within the executive branch, and the President will look to him for its implementation. Secretary Christopher considers this bill to be a central instrument of our policy. My presence here today is symbolic of that fact.

The joint presence of Brian and myself is symbolic of the teamwork with which this administration intends to pursue a common set of objectives. We believe that the objectives of this bill are widely shared by Americans of all parties. We believe that they contribute to the well-being of all Americans, and we invite this committee and the Congress through its action to join with us in their pursuit.

We want to promote prosperity at home and abroad. Strong and growing economies that result from sustained development mean better standards of living abroad and, incidentally, larger markets for our products, more jobs for our people. We have put economic competitiveness at the heart of our foreign policy, as we must in a global economy.

We must also continue our efforts to advance the cause of democracy. We must support political and economic reform in the newly independent States in Central and Eastern Europe. Americans have a huge stake in the success of those reforms. At the same time, we must not forget that countries in other parts of the world

are struggling to modernize their structures, political and economic.

Promoting peace is essential to our own security. Title III of our proposed bill will provide for multilateral peacekeeping and our support for the Middle East peace process. Chapter 1 of title III is part of a broad new policy to enable us to better manage U.S. involvement in international peacekeeping operations.

Title IV covers humanitarian assistance, the most tangible expression of the values of the American people. We will be addressing the other titles, Mr. Chairman, in the course of our testimony this morning.

I have just a few more remarks here. In another minute I will finish up. We have included title VI in this bill in order to make clear that without skillful democracy, and without the involvement of our overseas posts, our Government, our overseas programs would be unlikely to contribute as effectively to the realization of our national goals of prosperity and peace.

As you know, Mr. Chairman, this bill is the product of close consultation between the executive branch and the Congress and a lot of consultation with members of this committee. The administration appreciates the efforts that you and your staff have invested in helping us craft this proposal. We take this effort seriously, and we look forward to working with you to move the legislation.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Moose follows:]

PREPARED STATEMENT OF RICHARD M. MOOSE

Thank you, Mr. Chairman. I am pleased to be here this morning to testify before this Committee on the Administration's proposed Peace, Prosperity and Democracy Act of 1994. This legislation represents the Clinton Administration's initiative to achieve long overdue reform of our International Affairs programs. The Secretary of State is committed to seeking these reforms as a part of this Administration's efforts to open a new era in American Foreign Policy—it is not just a traditional Foreign Aid Bill, it is a Foreign Policy Bill. Together, Brian Atwood and I will be describing for you the changes that the Administration seeks to enable foreign assistance to function more effectively as a tool of U.S. Foreign Policy, both by making it more streamlined and by tying it more closely to the President's goals for America. Brian will give a history of the legislation with special emphasis on those elements of the reform proposal that speak directly to the role of USAID—promoting sustainable development and humanitarian assistance. My presentation will focus on the ways in which our reform proposal improves links between our overseas programs and our foreign policy objectives, particularly America's economic competitiveness. We will also spend a few moments describing those parts of our proposal which concern building democracy, promoting peace and advancing diplomacy.

FOREIGN POLICY OBJECTIVES

Profound shifts have taken place in America's foreign relations over the past several years. When this Administration came into office, we faced dramatically changed international conditions and problems, but we inherited foreign policies and institutions still geared, in many ways, to the conditions and needs of the Cold War. Nowhere is this more true than in the area of our international programs and specifically the Foreign Assistance Act of 1961. Over the years, that law, first enacted during some of the most tense years of the Cold War, has become laden with competing—and sometime conflicting—goals and objectives. Appropriate to a time when these programs proceeded from the premise that our overriding national security objective was the global containment of Soviet power, the FAA is now a relic, unsuited to meeting the challenges of the post-Cold War world.

Let me take a moment to review our foreign policy priorities and describe for you the importance of this reform bill to the pursuit of those objectives. The Clinton Administration has clearly stated its foreign policy priorities. They are:

- Ensuring the economic competitiveness and security of the United States;
- Supporting reform in Russia and the New Independent States of the Former Soviet Union;
- Renewing and revitalizing our critical security relationship with NATO and Europe;
- Expanding economic and political cooperation across Asia and the Pacific;
- Forging an enduring peace in the Middle East; and
- Meeting the challenges to American security posed by global problems like proliferation, environmental degradation, excessive population growth, narcotics trafficking and terrorism.

Not all of these challenges represent issues that are dealt with primarily through foreign assistance. Some, like renewing our security ties with Europe and building greater cooperation with the nations of Asia and the Pacific represent challenges first and foremost for American diplomacy. Others, however, require that we combine U.S. leadership with U.S. resources in order to safeguard vital interests and gain the cooperation of other nations in dealing with shared problems.

In a time of reduced budgets, it is more important than ever that our programs be reformed and our scarce resources be targeted accurately and used effectively. We cannot afford waste and inefficiency. That is why we seek to replace the existing Foreign Assistance Act with a new set of basic authorities to match the new challenges of our foreign policy. Indeed, if we cannot reform and streamline our assistance tools to meet new challenges, we can scarcely hope for success in meeting those challenges.

Our proposed replacement for the Foreign Assistance Act sets forth a comprehensive framework that reflects the major changes we are carrying out in the content, direction and the institutions which ensure that our interests are promoted and defended abroad. The authorities and accounts in the existing FAA, based on functional types of aid (for example Foreign Military Financing, Economic Support Funds, and Development Assistance), no longer reflect the links between our international programs and our policy objectives. Not surprisingly, foreign aid has come to be seen as something we do for others rather than as something we do to advance the security and well being of Americans.

The new Peace, Prosperity and Democracy Act represents an effort not only to update and rationalize our foreign assistance authorities, but also to put those authorities in a framework that ties our overseas programs to the President's goals for our nation. The new Act will authorize programs across the full range of international activities. These include programs to promote business opportunities overseas for Americans firms; to help countries make the transition from communism and authoritarianism to free markets and democracy; and to respond to new security challenges such as proliferation of weapons of mass destruction, threats to the global environment, excessive population growth, the movement of refugees, and the international flow of narcotics. These programs will be organized in a way that demonstrates our recognition that the American public is demanding a foreign policy that serves the U.S. domestic agenda.

Instead of functional authorities, the new Peace, Prosperity and Democracy Act is organized around mutually reinforcing strategic objectives. Under each of these objectives, the Act authorizes types of assistance appropriate to meeting that objective. We hope through this new structure to shift our focus away from how we do things and toward what we are trying to accomplish—away from process to results. We will set clearly understood goals by which our programs can be measured and we will demand measurable results. The new Act also substantially reduces the number of accounts and strengthens authorities for our foreign aid programs. The President's FY 1995 budget, submitted to the Congress on Monday, reflects the new account structure in our proposal.

The objectives which form the building blocks of the new Act are: promoting growth through trade and investment, building democracy, sustainable development, promoting peace, providing humanitarian assistance, and advancing diplomacy. These objectives are interlocking and mutually reinforcing. For example, democracy and free market reforms help to promote sustainable development and economic growth. Together they form a comprehensive framework which ensures that our international programs support our foreign policy. I would like to spend a few moments discussing a few of these and share with you some of the highlights of the bill.

PROMOTING PROSPERITY AT HOME AND ABROAD

We have put economic competitiveness at the heart of our foreign policy, as we must in a global economy. America's future prosperity is tied irreversibly to the growth and integration of the global economy. More and more Americans earn their

living by producing goods and services for overseas markets. Exports are the highest-paying and fastest-growing sector of our economy. Our most important task in this area is to open and to improve our access to markets overseas for U.S. goods and services. Our successes in achieving NAFTA, completing the Uruguay Round and opening up new opportunities in Asia and the Pacific are evidence of our commitment to use diplomacy to advance American prosperity.

In addition to opening markets we also intend to invest resources in helping U.S. business to penetrate these markets through programs to promote exports. The Peace, Prosperity and Democracy Act authorizes the Overseas Private Investment Corporation which supports, finances and insures sound business projects that increase U.S. employment, and our global competitiveness, at the same time assisting the host countries' economy and development. The Act also authorizes the activities of the Trade and Development Agency which enhance market opportunities for U.S. companies in the infrastructure and industrial sectors of middle income and developing countries. TDA works closely with foreign governments and other entities to involve U.S. business in the early planning stages of projects in these sectors. The resulting opportunities provide U.S. companies with market entry, exposure and information, thus assisting them in establishing a position in markets that are otherwise difficult to penetrate. This is particularly important in the emerging market-oriented democracies of Central and Eastern Europe and the Former Soviet Union.

While Brian will cover them in greater detail I think it is important to note that programs to promote sustainable development under Title I of the new Act are closely related to the programs I have just described under promoting prosperity. By helping to build vibrant growing economies in the developing world, we support a healthy global economy and build markets for U.S. exports.

BUILDING DEMOCRACY

In the State of the Union address, the President noted that " * * the best strategy to ensure our security and build a durable peace is to support the advancement of democracy elsewhere." Enlargement of the community of market democracies is a central strategic priority of the Clinton Administration, both as a way of ensuring our security and as a means of promoting our economic well-being. Democracies make better partners in trade, are more peaceful, and cooperate in managing global problems. The Peace, Prosperity and Democracy Act of 1994 authorizes programs to pursue this critical objective under Title II, building democracy.

The most important of our programs to build democracy are our continuing efforts to promote political and economic reform in the New Independent States and Central and Eastern Europe. Americans have a huge stake in the success of those reforms. If democracy fails in the Former Soviet Union, Americans could pay a severe price though increased defense budgets driven by a revived military threat. The success of reform, on the other hand, offers the promise of partnership with stable, prosperous market economies based on mutual interests and shared values.

The Peace, Prosperity and Democracy Act incorporates, as part of Title II, the historic Freedom Support Act which has served as the basic authority for many of our assistance programs in the Former Soviet Union. Similarly, Title II also incorporates the Support for Eastern European Democracy, or SEED Act of 1989.

Also included in Title II is a general subchapter for building democracy in countries in transition. This chapter authorizes flexible assistance across the full spectrum of possible activities in order to promote transition to democracy, assist democratic governments emerging from civil strife, and provide urgent assistance where democracy and democratic institutions are threatened. Assistance under this chapter would enable us to support emerging democracies in Africa, Asia and Latin America.

As the committee is aware, we engaged in an extensive consultation process preparatory to the submission of the Peace, Prosperity and Democracy Act. In the course of this consultation, the staff and representatives of Non-Governmental Organizations (NGOs) questioned the broad authority contained in the countries in transition sections, so I would like to explain the rationale for our approach. There is, of course, no single path to democracy, and none of them is easy. Countries attempting to join the community of democratic nations can benefit from many different types of assistance as they grapple with the challenges of reform. In some situations, our assistance may be concentrated upon strengthening democratic institutions such as programs to promote electoral reform, effective administration of justice, or respect for the proper role of the military in a democratic society. In others, the transition to democracy may require assistance to support economic reform or provide urgent economic support. Humanitarian assistance can help deal with the

hardship and dislocation that often accompany the transition to free markets and democracy.

Countries emerging from civil strife may require assistance aimed at aiding in reconstruction and the demobilization and re-employment of former combatants in civilian pursuits. In truly exceptional cases, economic and military aid may be necessary to help democratic governments meet threats to democracy from, for example, anti-democratic insurgencies or backlash states like Iraq, Libya or North Korea. Given this wide variation in the types of assistance needed to promote democracy around the world, we have laid out broad authorities enabling the President to seize opportunities to assist nations seeking to join the community of democratic nations.

PROMOTING PEACE

The central purpose of our foreign policy is to ensure the security of our nation, thus promoting peace remains a critical element of our national security. Title III of the Peace, Prosperity and Democracy Act will authorize programs designed to promote peace through, for example, multilateral peacekeeping and support for the Middle East peace process. It also authorizes programs to respond aggressively to new international security challenges like proliferation of weapons of mass destruction, and narcotics trafficking, while maintaining existing authorities to assist countries in meeting security threats, as well as to share in the burden of collective security.

Chapter 1 of Title III consolidates into one bill the existing accounts for U.S. assessed and voluntary peacekeeping contributions and would allow for funds to be transferred between the two accounts. The authority in this chapter is part of a broader new policy to enable us to better manage U.S. involvement in international peacekeeping operations. A centerpiece of this new policy is a sharing of responsibility between State and Defense for managing and funding peacekeeping operations. Basically, DOD will be responsible for peace enforcement operations and State for more traditional peacekeeping operations.

Chapter 2 of Title III would contain the authorization for the non-proliferation and disarmament fund, an initiative this Administration first proposed and established in fiscal year 1994. Designed to complement our vigorous diplomatic efforts to stem the spread of weapons of mass destruction, this account makes available small amounts of assistance to help countries improve their own non-proliferation efforts and to assist them in meeting their international non-proliferation commitments.

Chapter 3, Regional Peace, Security and Defense Cooperation, provides the bill's broadest new authority to furnish assistance for security and economic purposes. Chief among these purposes will continue to be support for the Middle East peace process, a constant and essential goal of U.S. foreign policy. Programs will include economic assistance needed to bring growth to Gaza and the West Bank as well as continued economic and military assistance for Israel and Egypt.

Despite the positive trends in the post-Cold War world, our national security strategy must recognize that threats do exist, allow for uncertainty, and prepare for the possibility for setbacks. Through the Regional Peace, Security and Defense Cooperation account, the Peace, Prosperity and Democracy Act seeks to maintain programs to assist friendly and allied nations to deter and defend against aggression and to cement cooperative defense relationships through peacetime assistance programs, especially military training programs.

Chapter 4 of Title III consolidates and streamlines existing authorities for programs to combat international terrorism and narcotics trafficking. The legislation also adds new authority to provide assistance for international crime prevention. These programs together represent highly cost-effective investments in enhancing the safety of the American people. It is far less expensive to help countries seize drugs overseas than to do so in the United States. Similarly, the price of our anti-terrorism efforts pales in comparison to a single terrorist act such as the World Trade Center bombing last year.

PROVIDING HUMANITARIAN ASSISTANCE

Humanitarian assistance is important to U.S. foreign policy: Assistance to the victims of natural and manmade disasters is both a tangible expression of the values of the American people and an essential strategy for achieving sustainable development. In times of crisis, new democracies and struggling economies are often dependent on international assistance to avoid a breakdown of the fragile political and social order.

Our concept in drafting Title IV is to group in one place the three primary channels of the U.S. humanitarian response—refugee assistance, disaster assistance, and

food aid programs. While we hope that this unified presentation will enhance the understanding of the American people and of other nations of the scope of U.S. worldwide assistance efforts, let me assure the committee that this grouping will not lead to any change in the way these programs are administered. State will continue to manage U.S. refugee and migration programs, including our annual refugee admissions program, which fall under the oversight of the judiciary committees. AID will administer disaster and food assistance.

ADVANCING DIPLOMACY

The effective practice of diplomacy is critical to our success in achieving the goals and priorities of this re-written and strengthened foreign assistance act. Without a strong core foundation for the conduct of U.S. foreign policy, we would be left with a "hollow" diplomatic infrastructure inadequate to respond to the challenges and opportunities of the post-Cold War world. Through a network of over 260 overseas posts the State Department exercises the leadership and provides the operational support necessary to advance U.S. foreign policy goals. Its people and missions are critical components of our efforts to promote peace, prosperity, and democracy in a changing world. It is imperative that in conjunction with drafting a new charter for this nation's foreign assistance programs, we also strengthen the people and institutions that will carry out the mandates of this new chapter in U.S. foreign policy.

Recognizing this critical link, we have included Title VI, Advancing Diplomacy, in the new Peace, Prosperity and Democracy Act which, though it does not authorize such programs, includes language that makes it clear that without skillful diplomacy our overseas programs are unlikely to contribute to the realization of our national goals of prosperity and peace.

Mr. Chairman, as you know, this bill is the product of close consultation between the Executive Branch and the Congress. The Administration appreciates the effort that you and your staff have invested in helping us to craft this proposal. Because we recognize the vital links between our international programs and our ability to successfully pursue our foreign policy priorities, we take this effort seriously and look forward to working with you to move this legislation.

Senator SARBANES. Thank you. Mr. Atwood.

STATEMENT OF HON. J. BRIAN ATWOOD, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. ATWOOD. Mr. Chairman, I also have a formal statement that I would like to have printed in the record.

Senator SARBANES. Your full statement will be included in the record.

Mr. ATWOOD. Thank you very much. I want to thank you, Mr. Chairman and Senator Kassebaum, for the leadership that you have shown in this whole reform area. Last year, you undertook to put a lot of reform in the bill that was passed by the subcommittee and through the full Senate Foreign Relations Committee. We thank Senator Pell for his leadership as well.

There are some ironies, it strikes me, to the fact that Dick Moose and I are here together asking for reform of the 1961 Foreign Assistance Act. We both served very proudly for members of the Senate Foreign Relations Committee at a time when it was said about Congress that there were many interventions by the Congress in our foreign policy. It was a very difficult time in the relationship between the executive branch and the Congress.

Indeed, someone wrote a book entitled, "Foreign Policy by Congress," and many of the provisions that were adopted during that era, when there was an absence of trust between the branches of the Congress and the Executive, are still in the 1961 bill as amended. So it does strike me as somewhat ironic that we are here today asking for a new beginning. We do it with the understanding that trust is always something that must exist between the branches of

our Government. It is particularly important in the system that we operate under here.

It has to be earned, however, on a daily basis. It is not something that we have come before you to suggest that we wish to have today, and therefore you give us all the flexibility we ask for and we will take it downtown and be responsible in using it.

We recognize that we must earn that trust through a process of consultations. I think that is the essence of the reform bill that we have sent. It does change the relationship, it seems to me. I was discussing this earlier with Senator Pell.

My view of the reform bill is that it improves the role of Congress in the oversight process. It has both branches of Government focusing more on strategic objectives and overall goals for our foreign policy. It does not excuse the administration from providing information, exhaustive information, if necessary, on country programs.

It does, in fact, under the congressional presentation provisions of this bill, ask us to present to you the strategic objectives we will pursue in each country, which is an important part of our development relationship and our foreign policy relationship, so I really believe that it enhances the congressional/executive relationship and the oversight role of Congress.

I testified before this committee in July, and I promised that we would undertake changes at USAID. We have undertaken those changes. We have reorganized USAID. We have right-sized USAID. We have consolidated bureaus. We have cut out layers of bureaucracy. As Senator Feingold has mentioned, we have decided to close 21 of our missions. Senator Kassebaum recommended that as part of the reform measure that was adopted last year.

This is important in bringing focus to our programs. We were spread much too thin around the world, and we were accomplishing very little because of that. We have begun the process of changing systems inside USAID so that we can produce and report results as opposed to simply reporting to you on the amounts of money that we spent last year on our programs.

We wish to diversify our contracting and procurement procedures. We want our personnel systems and our information systems to produce reports and to produce an evaluation of the kind of work that we are doing with the taxpayers' dollars. We have begun to adopt this new strategic approach, and we have issued to you five papers that talk about our strategies for the major goals that we have as an agency in the fields of democracy, population and health, economic growth, and environment and humanitarian assistance.

We have, in the process of drafting those papers, involved the outside community of people that care deeply about development—the private voluntary organizations and the other agencies of our Government, and various contractors and others that engage with USAID in the development process.

We have done all of these things, Mr. Chairman, but we cannot go any further without creating a new partnership with Congress, a partnership that is embodied in this bill. This reform proposal will create that partnership. It will enhance the oversight relationship, as I mentioned, by encouraging both sides to focus on results.

It will allow us to distinguish between the goals of our program and the means we use to reach those goals.

The current bill, I might say, mixes means and ends in the sense that it contains something like 33 different mandates and 75 different directives. We are attempting to clarify that, to streamline that. This bill will give us more of a strategic focus, and it will provide more of a sense of coherence and purpose.

This is very important not only to the Congress but inside the executive branch where various agencies and even bureaus compete for money. It will force us, under the leadership of the Secretary of State, to look at how we are going to achieve these goals and, as we compete to see which resources will be applied, I think it makes a lot more sense to do this under the titles that we have listed in this bill.

It will make it easier—this is very important for all of you as well as for us—to explain our foreign assistance programs to the American people. It will allow us to coordinate our activities more effectively with other donors, and this becomes increasingly important in an era when we do not have as many resources.

It will provide a mandate to make participation a key goal of our development program. We do not want to work exclusively with governments in a world where nongovernmental organizations are playing an increasingly important role in the development process. And finally, it will enable us to respond more rapidly to transition situations, problems that we are faced with every day in our foreign policy.

We look forward to working with you on this. We know that we will not get all of the flexibility that we ask. We have already made compromises as part of the consultation process with you. We know that we will not avoid all of the earmarks, although we would like to be able to make a case that this does constrain our ability to manage effectively.

We are confident that what will emerge from this process will be much better than the 33-year-old statute with which we now work.

I would point out to you, Mr. Chairman, this (indicating) is the 1961 act. It is very interesting in terms of the number of pages. It is very thin. This was the way it was adopted in 1961. This is one of the copies of the act, as amended, that has been used extensively by our lawyers downtown. You can see how thick it is and how many provisions it contains [indicating].

That is, of course, an amalgamation of a lot of provisions of law that were adopted during the cold war, and even, I might say, when Dick and I were here during the Vietnam War. Many of the provisions are still there.

I would make certain points about this bill. It certainly no longer serves our purpose as a superpower. As the remaining superpower, it really renders us quite incapable of responding rapidly to the situations we face around the world. It causes us to send a flood of paper to you that is not relevant to the oversight function that you perform.

You may not see it all, but some of the people sitting around the outside, in positions where Dick and I used to occupy, have to read all of those papers. I really do not believe much of it is relevant to the oversight function. It has made legal advisors and the law-

yers a lot more important than they perhaps ought to be. I should be careful, Mr. Chairman—I know you are a lawyer. It makes them as important, at least, as policymakers downtown.

It forces us to think very narrowly in development terms, in a very stovepipe fashion, rather than strategically about our work, and it confuses the American people, leading them to believe that our foreign assistance programs are just another form of international welfare.

I think we have a unique opportunity together to fix this problem, and to fix it in time to deal with new strategic threats that our country is faced with. I had a discussion yesterday with Senator Kassebaum about Robert Kaplan's latest article, "The Coming Anarchy," in *Atlantic Monthly*.

I personally think this is a much too dire prediction of what will occur. It does extrapolate from some very bad conditions that exist, particularly in West Africa, but I do think that it serves the purpose of putting in front of us the strategic threats that we face.

We are no longer faced with the unilateral threat, the monolithic threat of communism, but we are faced with such threats as environmental degradation, population growth, and the absence of democratic institutions around the world. These are very important issues that we must address in our foreign policy.

This bill, it seems to me, provides us with the opportunity to practice preventive diplomacy. That is the foundation of our foreign policy in a world with the threats that we face today.

So I hope we will work very closely with you, as we have in the past, to get this bill passed this year. I know it is a difficult year, but we really feel that it is essential that we move and take advantage of what seems to be a growing bipartisan consensus.

This is not a partisan effort. This has evolved since about 1989, and both sides of the aisle, including the last administration, attempted to get reform legislation done. This is our opportunity to do it, and do it together.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Atwood follows:]

PREPARED STATEMENT OF J. BRIAN ATWOOD

I. INTRODUCTION

Thank you, Mr. Chairman. It is a pleasure to appear before the Committee to discuss the subject of foreign aid reform, especially with my friend and colleague, Under Secretary Dick Moose. Both of us have worked as Senate staffers, often on issues relating to foreign assistance and foreign policy. I believe our testimony today reflects our experience in both branches of Government.

Our joint testimony also reflects Secretary Christopher's active leadership in coordinating foreign assistance reform within the executive branch.

The comprehensive reform bill the Secretary sent to the Congress last week on behalf of the President the Peace, Prosperity and Democracy Act of 1994—establishes a totally new framework to advance U.S. national interests in the post-Cold War era. It reflects a bipartisan consensus that our international programs can and must serve both our domestic interests and our commitment to a more democratic, prosperous and stable international community.

The bill represents the results of a year-long analysis of U.S. international programs to determine whether they continue to meet our national needs. We have endeavored in this process to consult openly and thoroughly with as many members of Congress and outside groups as possible.

When Dr. Wharton and I testified before this Committee last year, I committed myself to reform our foreign assistance programs from within to the fullest extent

possible. I will describe some of the concrete results of those efforts today. While I believe we have made a good start, internal reform can only go so far. More comprehensive changes are difficult until the basic law is amended. What is needed now is a joint Congressional-Executive, bipartisan effort for foreign aid reform. I know, Mr. Chairman, that this Committee has advocated legislative reform in the past. The bill and conference report you managed on the Senate floor in 1991 contained significant reforms, as did the bill reported by the Committee last year. Although those measures were not enacted at the time, much of that work has been incorporated in the Administration's proposed bill. We now want to build on your past bipartisan reform efforts to help enact reform legislation this year.

I also want to acknowledge the many efforts of the ranking member, Senator Kassebaum, to simulate both management and legislative reform of A.I.D. and our assistance programs. I hope this is the year when, by working together, we can bring these efforts to fruition.

The Foreign Assistance Act has been the charter legislation for America's International Assistance Programs since 1961. It was originally designed to meet the threat of communism, to address the legacy of colonialism and to support development worldwide. The 1961 Act served our needs for over three decades, even though it was amended repeatedly, with new mandates often added without deleting old priorities. But the Foreign Assistance Act now deserves its place in history.

That conclusion was clear even before the end of the Cold War. The need for new charter legislation is now an imperative.

Mr. Chairman, as you know, this new bill is, in large part, a direct result of a meeting last September in which you and other members of the Congressional leadership told the Secretary and the National Security Advisor, and other members of the Administration, that the Congress was not prepared to accept business as usual as defined by the existing Foreign Assistance Act. We heard you, and the President heard you.

Since that meeting, we have engaged in an unprecedented series of bipartisan staff consultations based on a discussion draft of the bill that we sent to the Congress in November. We have also held numerous sessions with interested outside groups. Many of the suggestions and recommendations that came out of those consultations have been incorporated in the final version of the Administration's bill. It is a better product as a result.

Mr. Chairman, President Clinton is strongly committed to working with you in a bipartisan effort, this year, to finally achieve the elusive goal of foreign assistance reform.

II. KEY FEATURES OF THE NEW BILL

Just as the 1961 Act responded to the threats of its era, the new bill identifies the international challenges of the post-Cold War world, and provides us the means to respond.

Foreign policy must be founded on coherent organizing principles. This bill embodies such principles and provides the authority for the executive branch to implement them forcefully. It provides a new and more relevant framework for American foreign policy and foreign assistance programs, one based on a policy of *preventive diplomacy*.

Thus, the bill would give us the means to anticipate threats, and deal with them before they become intractable.

It would enable us to take action today to increase the choices available to American diplomacy in the future.

It addresses problems such as terrorism, narcotics trafficking, aiding the emerging democracies of the former Soviet bloc, addressing ethnic conflict, responding to excessive population growth, environmental degradation, nuclear proliferation and other transnational problems whose scope is much greater than could have been imagined thirty years ago and which demand the most sophisticated response we can mount.

Before turning to the rest of my testimony, let me briefly summarize the key features of the bill:

1. It authorizes both long and short-term economic and security programs; trade and investment activities, and new authority to respond to crisis situations. Programs not authorized in the bill are referred to in terms of how they contribute to the bill's overarching goals.

2. It repeals the Foreign Assistance Act of 1961, as amended, and parts of the Arms Export Control Act, and related legislation. It also repeals the legislation that created the International Development Cooperation Agency in 1979.

3. The bill is structured by major foreign policy objectives. It gives us clearly identifiable goals and requires us to produce results. Instead of authorizing nu-

merous, discrete and sometimes unconnected programs, the bill authorizes activities to achieve interrelated goals such as sustainable development, promoting peace or promoting prosperity through trade and investment.

4. The bill is a permanent charter rather than an annual authorization of appropriations. It is intended to be free standing, permanent law that authorizes programs for which funds would be authorized in separate authorization bills.

In describing the new bill, I want to focus on the following:

- How the new bill addresses post-Cold War needs.*
- The long-term challenges of sustainable development.*
- Meeting immediate needs: crises and humanitarian assistance.*
- The importance of coordination and leveraging, and, finally;*
- How we will manage USAID to achieve results.*

Under Secretary Moose has discussed the relationship of the new bill to our broader foreign policy objectives; the relationship between diplomacy and the programs authorized by the bill; security assistance, and programs designed to advance our economic interests through trade and investment.

III. MEETING POST COLD-WAR NEEDS

President Clinton has defined three areas of enduring, vital U.S. interests: national security, economic revitalization, and the promotion of democracy.

The collapse of communism has changed our understanding of our national security. Instead of an overwhelmingly military threat, we now face a broader range of international problems including those arising from local and regional conflicts, political chaos, economic deterioration or collapse, and environmental degradation.

This bill is a charter designed to meet these challenges well into the next century. Its goals are the best ways to project the U.S. national interest: promoting sustainable development; building democracy; promoting peace; providing humanitarian assistance and promoting prosperity through trade and investment. A sixth goal, advancing diplomacy, identifies how our diplomatic efforts can be used to achieve each of these objectives.

A distinctive feature of the new bill is that it contains reference to the various departments and agencies within the executive branch that carry out foreign assistance programs under the 150 account. These references are intended to demonstrate that the congressionally mandated programs of these departments and agencies will be carried out in a manner consistent with the new goals articulated in the reform legislation.

I want to concentrate my remarks today on how the bill allows us to achieve results in the following four titles: sustainable development, building democracy, providing humanitarian assistance and promoting growth through trade and investment. These areas are the ones in which USAID will be most actively involved. USAID will also help to achieve the two remaining goals (promoting peace and advancing diplomacy). My colleague, Mr. Moose, has described how all of the authorities in the bill will work towards achieving our fundamental foreign policy interests.

IV. THE LONG TERM CHALLENGE OF SUSTAINABLE DEVELOPMENT

The Clinton Administration has identified sustainable development as the cornerstone of its development assistance efforts and also as a key element of its foreign policy. It is the first title of the new bill, in part, because it forms a philosophical base for the entire bill.

Promoting sustainable development is vital to the United States. By the year 2000, 4 out of 5 people in the world will live in developing countries. Our interests and our markets will be shaped by events in those countries. The quality of life in developing nations will increasingly come to define our own quality of life—politically, economically, socially. Without sustained development, national and regional economic, political and security problems proliferate; and because overpopulation and environmental destruction threaten to undercut the best efforts of nations to build peace and prosperity.

Sustainable development signifies broad-based, economic growth which protects the environment, enhances human capabilities, upholds democratic values, and improves the quality of life for the current generation while preserving that opportunity for future generations. The ultimate measure of success of development cooperation programs is the enhanced ability of developing countries to overcome the obstacles to self-sustaining development. Sustainable development programs pursue this objective by supporting the self-help efforts of developing countries to implement sound policies, invest in their people, and build effective and accountable indigenous political, economic and social institutions.

Title I of the bill contains four inter-dependent objectives on which our bilateral assistance efforts should focus in pursuit of sustainable development.

1. *Encouraging Broad-based Economic Growth.*—Broad-based economic growth signifies equitable and inclusive economic expansion in developing countries. Such growth is in the economic, political, and strategic interests of the United States because it creates markets and reduces the threat of global problems such as population growth and environmental degradation. Economic progress also improves the prospects for the spread of democracy and political values supportive of United States interests. Economic stagnation or narrowly-based economic growth may fuel political instability and threaten international security and cooperation.

Broadly-based, sustainable, participatory growth requires: investment in people, particularly poor men and women, in the form of health, child survival, education, and other critical social services and systems improvements; an enhanced role for markets through improved macroeconomic policies and other appropriate policy reforms, stronger institutions, and sound public investments; enhanced food security and sustainable improvement in agriculture; and measures to ensure that the poor have access to productive resources and fully participate in the benefits of growth in employment and incomes.

2. *Reducing Excessive Population Growth Rates.*—Excessive population growth aggravates poor health conditions, perpetuates poverty, and inhibits saving and investment, particularly investments in people in the form of basic health and education services. Continued growth in world population rates will undercut sustainable development efforts. Unsustainable population growth is directly linked to degradation of the natural resources base and the environment and contributes to economic stagnation and political instability, and retards progress on global issues of direct concern to the United States.

Our primary objective is to help reduce excessive population growth to rates that are consistent with sustainable, broadly-based development. This calls for a focus on enhanced access to quality family planning services and reproductive health care, increasing infant and child survival rates, improving female literacy and education, and raising the economic and social status of women.

3. *Protecting the Global Environment.*—The economic and social well-being and the security of the United States depend critically on the global environment and physical resource base. Patterns of consumption, systems of industrial and agricultural production, and use of natural resources directly affect the sustainability of long-term development and the environment. Development that does not take account of its environmental consequences will not be sustainable. The poor not only suffer disproportionately from the consequences of environmental degradation, but also contribute to that degradation as they struggle to meet their own basic needs.

Sustainable development programs authorized by this bill should address the root causes of environmental harm, promote environmentally-sound patterns of growth and support improved management of the environment and natural resources. These activities include efforts to address urgent global environmental challenges, including the loss of biological diversity and global climate change, as well as efforts to address significant environmental problems within countries and regions. Such efforts seek to promote sound environmental policies and practices which simultaneously enhance long-term economic growth.

4. *Supporting Democratic Participation.*—It is in the national interest of the United States and in keeping with our democratic traditions to support democratic aspirations and values, foster the spread of enduring democratic institutions, and encourage universal respect for civil and human rights. The establishment of local governance, civil society, and democratic institutions is an essential element of the ability of nations to sustain development efforts.

Sustainable development programs must help to build and strengthen organizations and institutions that foster participation in economic and political decision-making at the local and national levels. Such programs should help promote respect for human rights and the rule of law; the ability of all citizens to choose freely their government and to hold that government accountable for its actions; efforts which advance legal, social and economic equality; respect for the rights of women and minorities; and principles of tolerance among and within religious and ethnic groups.

In addition to pursuing these four objectives, Title I of the bill recognizes that sustainable development will only be achieved if programs incorporate several cross-cutting principles:

Popular Participation: Sustainable development depends for its success on the empowerment of people to make political and economic decisions. The more potential beneficiaries are actively involved in the planning and implementation of development programs, and the greater their stake in the outcome of those programs, the more likely it is that the programs will succeed.

Role of Women: The expansion of women's opportunities is essential to reduce poverty, lower population growth, and bring about effective and sustainable development. Women must be involved as agents, as well as beneficiaries, of change in all aspects of the development process. Women, therefore, should be integrally involved in policies, programs, and projects undertaken to achieve the objectives and purposes of the proposed legislation.

Non-Governmental Organizations: For development to be broad-based and sustainable it must engage non-governmental organizations, including private voluntary organizations, universities, cooperatives and credit unions, labor unions, women's groups and indigenous local organizations in the policy and program process, including regular involvement of such groups in the formulation of USAID's development strategies for countries and sectors.

Finally, programs undertaken to achieve sustainable development in all sectors must recognize the importance of education and training, including the involvement of institutions of higher education.

In addition to sustainable development programs focused on the four objectives I have just discussed, Title I of the bill also contains a section entitled the "Development Fund for Africa", which describes the unique development challenges facing that continent. The bill does not contain a separate authorization for Africa, but our annual Congressional presentation documents will show that we continue to assign high priority to that area. Title I also includes a separate authorization for microenterprise credit programs and other credit programs and describes the important partnership relationship USAID must have with U.S. colleges and universities, private voluntary organizations, cooperatives and credit unions, and labor unions if it is to achieve its sustainable development objectives.

V. URGENT NEEDS: BUILDING DEMOCRACY (TITLE II) AND PROVIDING HUMANITARIAN ASSISTANCE (TITLE IV)

Up to now, I have focused my remarks on the principles inherent to sustainable development in Title I of the bill. Titles II and IV contain authorities related to Title I, but which will generally be applied in circumstances where sustainable development is not the immediate objective being sought.

A. PROMOTING DEMOCRACY

Title II (building democracy) contains authority, among other things, to strengthen civil society where countries or areas are emerging from situations such as anarchy or civil strife. This new authority is contained in Subchapter A of Chapter 1 of Title II, called Countries in Transition. It would allow the President or the Secretary to respond rapidly to unstable situations where short-term assistance may mean the difference between a country or region falling back into chaos or moving into a state of sustainable development. Subchapter A of Chapter 1 of Title II would authorize assistance to (1) address political, economic and humanitarian needs that arise in connection with transitions, or that if unmet undermine or threaten democratic institutions, and (2) to help meet security challenges on a transitional basis that threaten to impede or reverse democratic reforms or institutions.

Our ability to respond rapidly in time of crisis is more crucial than ever. In places like Somalia, Liberia, and Angola, "development" no longer has meaning. The term denotes progress and modernization, but by any meaningful standard, these nations are no longer "developing". In these countries, by stages, conflicts have become intractable, irreconcilable. They feed on themselves, consuming the sense of nationhood and the institutions of national unity and conflict resolution. At each stage, as chaos grows greater, the cost of reconstruction becomes geometrically larger.

We need to be able to answer urgent requirements in these societies that are not addressed by traditional disaster relief, conventionally managed development programs, or international peacekeeping operations. USAID must become more relevant to the U.S. policy agenda in urgent, transitional situations by having the ability to provide assistance to address political, economic and humanitarian needs.

In addition to authority for these new crises situations, Subchapters B and C of Chapter 1 of Title II will continue to authorize assistance for the Independent States of the Former Soviet Union and for Central and Eastern Europe, respectively. These authorities are basically continuations of existing law (the Freedom Support Act and the Support for Eastern European Democracy Act (SEED)).

B. HUMANITARIAN ASSISTANCE

Title IV (providing humanitarian assistance) authorizes programs to respond to the victims of manmade and natural disasters. The bill reflects the humanitarian

impulses of the American people to relieve human suffering through direct disaster relief or by providing assistance on behalf of refugees and other victims of forced migrations.

VI. PROMOTING GROWTH THROUGH TRADE AND INVESTMENT

The Administration is committed to an agenda of economic renewal.

Title V of the bill authorizes programs to establish or maintain markets for American goods and services, creating new jobs and enhancing prosperity at home. These programs are designed to complement sustainable development efforts to create viable markets for U.S. Exports.

VII. COORDINATION AND LEVERAGING

The bill recognizes the Secretary of State's paramount role in coordinating all overseas programs, including coordination within the executive branch of budget and foreign policy issues. The new bill does not alter this traditional role.

The bill also recognizes that we need to leverage our scarce resources by convincing others to work with us. We must seek and secure international cooperation in our efforts. The bill therefore notes the importance of working in concert with other bilateral donors and multilateral organizations.

Similarly, while the bill does not establish a statutory executive branch coordination mechanism to replace the Development Coordination Committee, the thrust of the new bill is to achieve a new philosophy whereby all the programs authorized by Congress focus on common national goals. This will reinforce this Administration's already strong commitment to the internal coordination of programs and resources.

VIII. SETTING PRIORITIES AND MANAGING AID FOR RESULTS

Finally, Mr. Chairman, I want to talk about results: how will we measure results of programs authorized by the new bill, and what are the results of our efforts to revitalize USAID.

The proposed bill recognizes that outside assistance cannot substitute for a developing country's own efforts to improve the lives of its people. The United States should only provide assistance which yields enduring results in terms of improving the lives of its intended beneficiaries and contributing to the interests of the American people.

Sustainable development programs under the proposed new bill will be concentrated in countries that have the greatest need for such programs, that make the most effective use of such programs, and that have a commitment to achieving clear development objectives. Our assessment of need will be based on criteria drawn from the four components of sustainable development—such as fertility rates, child survival, depletion of natural resources, environmental threats to human health, poverty levels and other socio-economic indicators—and will be assessed in light of USAID's comparative ability to address those needs. Our criteria include an enabling environment in which truly free market economies emerge; in which government decision-making is transparent; government institutions are accountable to the public; an independent and honest judiciary is maintained; authority is decentralized; local government bodies are democratically elected; and political parties, non-governmental organizations, and the media operate without undue constraints.

Under the terms of the bill, USAID will assess the commitment and progress of countries in moving toward commonly agreed development objectives. We will establish open and transparent systems to monitor the results of assistance by sharpening our own capacity to measure results as defined by the agency's new strategy and implementation guidelines, and by sharing fully our objectives, criteria and data with host country governments, as well as local and U.S. NGOs and PVOs with whom we work. We will be prepared to make the tough choices necessary to shift scarce resources from unproductive programs, sectors or countries to those which have demonstrated the commitment and ability to use them effectively.

In terms of management and organization, I realize that unless USAID is effectively managed, no amount of resources or reform legislation will lead to the kind of measurable, concrete results we all want.

I know we are asking for increased flexibility by requesting authorizations for broad national objectives instead of specific programs; and that this is of concern to many in Congress who believe that in return for this flexibility, Congress must be able to hold us accountable for results.

This is what I mean by results:

—In my first nine months as Administrator, we have announced terminations of 21 overseas missions. In some cases we have done this because countries no longer require concessional assistance; in others because the recipients have proven to be poor development partners.

We have also:

—Embarked on an agency-wide "rightsizing" effort that will simplify and streamline the agency. I have made painful personnel decisions that affect particularly AID's senior ranks. While not aimed at reducing personnel, *per se*, we expect to reduce overall AID staff levels by 5.5 percent in the first two years of the Clinton Administration. We have reorganized USAID Headquarters by eliminating redundant layers of bureaucracy and by combining organizational units to make the organization more responsive to direction.

—Introduced a systemic reform of USAID's grant and contract mechanisms to make them more transparent, efficient and responsive.

—Established AID as a reinvention lab in Vice President Gore's Reinvention of Government Program, including creation of an Agency-wide Quality Council to involve all employees in the process of revitalizing USAID.

—Strengthened interaction at the most senior levels of USAID and the State Department to improve and speed decision-making and encourage cooperation at all levels.

—Established a systematic program of consultations with outside groups representing all segments of American society to help us reinvent USAID and to carry out our mission. These outside groups represent business, labor and private voluntary organizations, among others.

—Issued detailed strategy papers for our program managers on how to achieve sustainable development.

What I am suggesting, by dwelling on these administrative reforms, is that I will need your help to manage USAID for results. We need a new partnership with the Congress to reach our goals: if you give us the legislative tools, we will deliver measurable results towards our overall objectives.

I know that means more work for both of us—more and better advance consultations. But only if we enter into this partnership will we be able to reach the objectives all of us share.

IX. CONCLUSION

In conclusion, Mr. Chairman, there is wide agreement that the organic legislation under which our assistance programs operate is long overdue for a major overhaul. The end of the Cold War enables us to focus, in a way not heretofore possible, on results—results achieved in partnerships with nations that truly care about the development of their societies and the participation of their people. It is long past time to rewrite the charter that authorizes our foreign assistance programs. It is time not only for a new legislative beginning, it is time now for the executive and legislative branches to agree on a new set of organizing principles for our foreign policy. We look forward to working with you in the weeks and months ahead to help fashion a new charter for overseas cooperation programs that truly reflect the interests of the American people.

I look forward to your questions.

Senator SARBANES. Thank you very much. If it is agreeable to the members we will have 10-minute rounds.

We need to explore this fairly carefully here. First of all, Brian, I am reminded of President Reagan's State of the Union address as you held up that pamphlet there.

Mr. ATWOOD. Did I remind you of that, Mr. Chairman? [Laughter.]

Senator SARBANES. You did, yes. That is this document here, is it?

Mr. ATWOOD. That is the clean version. Yes, that is right, the same one.

Senator SARBANES. Now I really want to compare apples with apples. This booklet contains a lot in it that is not the 1961 act or amendments thereto. Would that be a fair statement?

Mr. ATWOOD. That is right.

Senator SARBANES. In fact, this booklet is about 1,800 pages, and how much of it is the 1961 act and amendments thereto, about 300?

Mr. ATWOOD. Mr. Chairman, the 1961 act are the pages that have been used the most. You are right, it is about half the book.

Senator SARBANES. Well, it is not even half, as I read it.

Mr. ATWOOD. Right.

Senator SARBANES. I mean, I do not think in the course of trying to get reform we ought to overstate this case. That is my first point.

Mr. ATWOOD. Right.

Senator SARBANES. Second, when we worked on it last year, we tried to amend the act, and you were going to repeal it, as I understand it, which of course requires us to look at what is being left out as well as what is being put in. Would it be fair in saying that?

Mr. ATWOOD. That is right, Mr. Chairman.

Senator SARBANES. It makes the "notwithstanding" provisions that are in your legislation particularly significant.

Mr. ATWOOD. That is right.

Senator SARBANES. And there are a number of those scattered through your bill. In fact, quite a number in which you are given authority and saying "notwithstanding any other provision of law," is that correct?

Mr. ATWOOD. There are, as I understand them—

Senator SARBANES. Why do you do that? Why do you not just give the authority, spell out what the authority is? I mean, when we get a "notwithstanding," then we have got to kind of research everything else, have we not?

Mr. ATWOOD. Mr. Chairman, as I understand it, what we have done is incorporated current provisions of law, with the exception of two cases where we have added notwithstanding language are in the case of peacekeeping, and I believe in the case of countries in transition, which of course is something we are faced with more frequently today.

A lot of this notwithstanding language represented reforms that Congress had put in place in the past, such as the Development Fund for Africa, which we think is a model for reform. It has forced us to report results to you. It has focused our attention on strategic objectives in Africa, and it does contain some notwithstanding clauses so that we are able to move more flexibly in Africa. The same is true with the Freedom Support Act.

Senator SARBANES. Well, now, I thought you were dropping out of the Development Fund.

Mr. ATWOOD. What I was suggesting to you was that we have incorporated the notwithstanding provisions that have existed in previous law. There is a reference under the sustainable development title to the Development Fund for Africa, but we have not asked for any authorization for appropriations in that provision.

Senator SARBANES. So there will not be a Development Fund. You may do the things that the Development Fund has been doing, but you will not have an authorized Development Fund for Africa program, is that correct?

Mr. ATWOOD. We will not designate any region under the sustainable development title, that is right.

Senator SARBANES. Now, I am interested in this flexibility question, and this leads into my next subject. I support giving you flexibility in terms of running your Departments, but I want to try to ascertain what you mean by flexibility in terms of using the resources that are going to be provided by the Congress to you.

Now, I know we are not going to do numbers here today in terms of specific programs, but I have to get some feel for how this process is going to work as it relates to numbers. Suppose we authorize \$20 billion for the foreign assistance category. Now, is it the executive's intent that they would have the flexibility, then, to deal with that money and to move it around as they judge the priorities?

Mr. ATWOOD. No, it is not.

Senator SARBANES. Now, would that money then be broken down into these six objectives which you have indicated to us?

Mr. MOOSE. When you see, Mr. Chairman, the presentation of the international affairs function, you will see major headings which correspond to the six major headings that are the framework of this bill.

You will see grouped under each heading the various programs and activities which we expect to carry out under those priority headings. This bill, just as some aspects of current legislation, provides for certain flexibility in the use of the programs which may be authorized and appropriated in various places.

Senator SARBANES. Well, I am trying to search for what the rationale is for that flexibility. I am honoring your request that we will not deal with specific numbers, but I just want to understand how this is going to work. How much flexibility is there to be?

Mr. MOOSE. Well, as regards, for example, the authorities for disaster and for refugees, we have maintained in this draft legislation the same notwithstanding clauses that really affect that body of legislation currently.

We simply hope to carry over that flexibility in order that when some unexpected humanitarian assistance situation arises, that the executive branch will be able to marshal money from various accounts and use it and apply it in that situation, notwithstanding some restrictions or prohibitions which would otherwise have operated on those particular accounts were they not being employed for this particular humanitarian purpose.

Senator SARBANES. All right. Now, what you are doing, though, is bringing me down to more detail than I want to get to at this moment.

Mr. MOOSE. I am sorry, I thought that is where you were going.

Senator SARBANES. I want to take the large amount.

Then you were going to have it apportioned out among these six objectives. Is there to be flexibility that the executive branch can move resources from one area into another?

What I am trying to get at is, obviously the amount of money you get from the Congress is related to what you are going to do with the money, and what you are going to do with the money in the end is related to very specific purposes, although we understand that there needs to be some flexibility in the system.

Now, as you envisioned the approach, is there to be flexibility that enables you to move money from one major area into another?

Mr. ATWOOD. Mr. Chairman, I might try that one.

The draft bill that we sent up to you, which was the subject of our consultations, had, I would say, the maximum amount of flexibility that we could ever expect. It allowed us to transfer money among the six titles, after consultations, and in accordance with a procedure that was established. We have now modified that draft bill considerably in this sense.

The sustainable development title, for example, is now fenced off. Because of the concerns that were expressed, we are not now able to move money from sustainable development into any other title.

We have agreed to a cap on military assistance. Whatever is authorized and whatever is appropriated will be the maximum that can be spent on military assistance. Money cannot be moved from another title into that beyond the cap. But, the other titles still have some flexibility for moving moneys in accordance with a procedure that we would agree to, and which would include, of course, consultation.

Senator SARBANES. When you say some flexibility, is it limited in any way, other than by the consultation in terms of the amount?

Mr. MOOSE. If I could give a short answer, Mr. Chairman, I think in a sense I understand what you are asking us now. I think the short answer to your question is no. There will still be separate accounts, and if the executive branch wishes to use moneys in one account that were not originally intended to be used for some other purpose, there is in this bill as there is in existing law transfer authority, and that is subject for the most part to the same sorts of consultations and letters and so forth that we find in present law.

Senator SARBANES. Well, I wonder if my colleagues will indulge me just for one moment. My red light is on, but I want to address the phrase, "for the most part," that you just used.

Mr. MOOSE. I only threw in, for the most part, because my knowledge of the draft legislation is not encyclopedic, and I did not want to run the risk that I had made too sweeping a statement. I believe the procedures for transfer are almost entirely the same ones that you would find today.

Mr. ATWOOD. And there is a limit, Mr. Chairman. Only 10 percent may be transferred out of any one account, and no more than 20 percent can be added to an account. It is not as if it were a total blank check.

Senator SARBANES. Well, that is important. So you could not diminish any account by more than 10 percent, and you could not raise any account by transfers into it by more than 20 percent, is that correct?

Mr. ATWOOD. That is correct.

Mr. MOOSE. And there may not be transfers out of, for example, sustainable development into military. There are a number of compartments in there that are meant to act as restraints that correspond to what we know to be the concerns of this committee.

Senator DODD. Paul, may I just have a question on the one point, sir?

Senator SARBANES. Certainly.

Senator DODD. How about waiver authority regarding what the Senator asked about?

Mr. ATWOOD. The 614 waiver authority is in the current law. That presidential waiver continues to exist although as you know, it is very rarely used. But that does exist in the new bill.

Senator DODD. So with limitations you just mentioned, with that waiver authority to be exercised, the amounts to be transferred have no limit?

Yes, that is correct.

Senator SARBANES. Senator Kassebaum.

Senator KASSEBAUM. Well, Mr. Chairman, you talked about flexibility. I would like to talk about coordination for just a moment. I have always wondered how to get a handle on some of this because of the interagency aspect. There is AID, there is State Department, USIA, Agriculture, OPIC, USTR, Treasury, Peace Corps. Under current law there was the Coordination Development Committee, I think it was called.

While it was not particularly active, at least it was designed to be interagency coordination. Now that has been eliminated, I understand, under the new proposal. Do you have any substitute for trying to get better coordination interagencywise?

Mr. ATWOOD. The coordination matter is discussed in the bill only to the extent that it gives the Secretary of State the authority that he has under current law to coordinate among the various agencies. Mechanisms such as the one you referred to have largely been inactive. Coordination mechanisms for a variety of programs that are covered under these titles are being created by the administration.

Presumably each administration would wish to create mechanisms that would work for them. We have, in the Clinton administration, used a number of the mechanisms that existed in the past administration, but we are creating new ones as well. With respect to democracy, we will be creating a new interagency mechanism for coordination of that function. So the bill leaves to the executive branch to create the mechanisms that would be used for coordination purposes.

Senator KASSEBAUM. So you would do it more per area of interest than foreign assistance in total.

Mr. ATWOOD. That is right. The way this bill is structured forces the executive branch to look at these issues in accordance with the framework, so it is logical that democracy would be one of those items.

Senator KASSEBAUM. Well, talking about democracy and the title II section, as you know, it has troubled me a bit. Maybe you could give me an example of what type of program would come other than as being done in helping with elections. What do you envision falling under title II?

Mr. ATWOOD. Well, title II would deal with situations that we are faced with now, such as the transitions in the former Soviet Union and Eastern Europe. What we have done in this bill is to incorporate that legislation in its entirety, because it was recently enacted by Congress.

Title II would also deal with more advanced countries that are not going to be eligible for sustainable development assistance because they no longer require economic support, but where democratic institutions are under attack. I would cite Venezuela as an

example of a country whose democratic institutions are somewhat strained at this point, but where we have no USAID mission.

Finally, this title would apply to countries that are not currently democratic. But where U.S. assistance can help spur democracy, but again there would be no USAID mission in these countries.

Under title I we would do democracy work as part of an integrated sustainable development approach, working with nongovernmental organizations or institutions in the country, for example. But this would be part of a strategic approach to long-term development in the country.

Senator KASSEBAUM. Well now, might that not get a little confusing, to split it in those two directions? Will this be likely under the State Department or under AID?

Mr. ATWOOD. Title II would be governed by an interagency group chaired by the State Department. USAID would be responsible for the sustainable development title, and its missions would be implementing these integrated programs.

Senator KASSEBAUM. I just see that this is an area that has merit, but again is—I used the word “amorphous” I think in my opening comments—and I do worry about clarification. Maybe as we mark up, each of the members of the committee in their own areas of expertise could help me understand a little bit better exactly how that might work.

That is where there is a lot of notwithstanding any other provisions, I think, in title II. Is that correct?

Mr. ATWOOD. Yes. To be able to promote democracy actively and aggressively we need additional flexibility particularly in transition situations.

Senator KASSEBAUM. Let me just ask, how will this be used in South Africa? Is there a team in place that is working on an interagency basis on what we might be doing there after the elections in April, and/or prior to that?

Mr. ATWOOD. There is indeed an interagency team in place that is looking at trying to respond to the developments that will occur there in April, and assisting in the election process before that.

South Africa is a unique case, because the bill that was passed in 1986 to enable USAID and the administration to support the anti-Apartheid forces in South Africa was very special. It forced our Government, through USAID, to work exclusively with nongovernmental organizations. That program will be changing now and we will work with the democratically elected government, as well as NGO's after the April 27 election.

Senator KASSEBAUM. Just to comment a bit on title IV and the humanitarian aid, I think frankly that the Office of Foreign Disaster Assistance has done a tremendous job, but it is being expanded, I understand, to now include “reconstruction,” so it moves a bit in a new direction or expanded direction. I wonder what is meant by reconstruction and why would that not fit under development assistance, or some other aspect, rather than disaster.

Mr. ATWOOD. We are seeking additional authorities to create an Office of Transitions Initiatives that will be separate from the Office of Foreign Disaster Assistance although under the Bureau of Humanitarian Response.

It is not our intention to take resources from the Office of Foreign Disaster Assistance for this new office. We at USAID have traditionally been called upon by our Government, when it is considered to be a foreign policy priority, to move into a transitional situation to help on such issues as we have faced in Mozambique, as an example, with demining, reconstruction of bridges, and reestablishment of institutions of Government.

We have not had flexible authorities. We have required special legislation, or we have had to find other ways to rationalize current laws to be able to perform that work. In my view, that is one of the reasons why a lot of people feel that USAID is not relevant to our foreign policy.

So we decided to create this new office, separate from the Office of Foreign Disaster Assistance, to allow us to be more responsive. But the moneys that would be assigned to this office would be moneys that would have been spent by our regional bureaus previously.

We are only now getting this small office started, an office that we hope will make us more responsive to these kinds of situations.

Senator KASSEBAUM. When we are talking about coordination and how it would be viewed in any given country, I think it is not only interagency that becomes important. Say you are looking at Mozambique and what is being done through all the different titles, not only within a title but among titles and among other donor countries. I have always found that really very hard to get any sense of sort of how that is being directed. I hope that through this proposal that can be addressed.

Just one final question, because the red light is about to go on. Under current law, the PVO's receive AID funds, of course, but have to have 20 percent of the moneys that they raise on their own from private sources. I have always believed this was very important, because it showed that there was a desire and a need for support for PVO work in that particular area. You have eliminated any sort of matching requirement, is that not right?

Mr. ATWOOD. Yes, we have, Senator. We are obviously looking to develop a new partnership with PVO's. Many of the PVO's we have worked with are well-established now. I believe there was a very good purpose in setting the requirement in the early days, because we certainly did not want the possibility that our Government was creating and fully supporting PVO's.

I think there are many ways for us to avoid that possibility, which is why we have dropped that particular requirement.

Senator KASSEBAUM. Thank you very much. Thank you, Mr. Chairman.

Senator SARBANES. Thank you. Senator Pell.

The CHAIRMAN. Thank you very much. There are several questions that I want to squeeze into my time.

In the first place, how many American citizens are there in the field, and how many are stationed here at home?

Mr. ATWOOD. Mr. Chairman, there are many ways to look at that question. The question is usually answered by telling you how many direct-hire USAID people are in the field versus how many in Washington. That is about 1,000 in the field, and 2,000 in Washington.

However, if you look at the total of USAID workforce, whether they are Foreign Service nationals, or personal service contractors or U.S. direct-hire, it is more like 10,000 in the field and 3,000 in Washington. So there are more people in the field than there are in Washington. I am not exactly satisfied with the ratio of direct-hires.

The CHAIRMAN. Thank you.

One of the programs the aid program meets, those of us who have to go to our constituencies find that the most unpopular program of the Government is the aid program. One way of building that constituency up, it would seem to me, is to make greater use of the PVO's, because each of the PVO's has its own constituency—Catholics, Protestants, Jews, WCC, et cetera, et cetera—and you could add to the constituency to support the aid program.

In addition to that, I remember running a PVO program years ago, and felt we could do it much cheaper than Uncle Sam did. I introduced legislation once wiping out the aid program overseas, and substituting the PVO's. Obviously, though, that is impractical. We could not get anyone. But I was just curious if you would concur that the PVO's should be made greater use of than is the present case.

Mr. ATWOOD. Yes, and I really feel pleased that we have been able to work with them as closely as we have. We believe that, especially in a world where nongovernmental organizations are becoming so much more important to the development process, we should be working to create people-to-people partnerships, and the PVO's with whom we work are able to do that, whereas official Government employees do not do it as well. So we believe in this partnership.

The CHAIRMAN. Have you increased the money the PVO's—the allotment to them?

Mr. ATWOOD. Mr. Chairman, I do not think we have increased the money for anyone lately, given the budget situation we face, but we have certainly not reduced the amounts as we have in many other cases.

The CHAIRMAN. You have straight-lined the PVO's, in other words.

Mr. ATWOOD. And we are a lot friendlier to deal with.

The CHAIRMAN. The refugee programs in the past were handled through the State Department, were authorized under the State Department handling of management. My understanding under the bill submitted by the administration, you would move that to AID, is that correct?

Mr. MOOSE. I think that is not correct, Mr. Chairman. You might infer that that might happen because we have sought in framing this bill to bring together as many of the foreign assistance type programs as we could within the framework of this bill, and it is true that we moved the authorization for the Refugee and Migration Act into this bill, but in fact the program will continue to be operated as it has been in the past. We simply—for purposes of trying to bring like kinds and related kinds of activities together, we brought it here together with authorities with other types of humanitarian assistance.

The CHAIRMAN. In other words, the present management pattern will be continued.

Mr. MOOSE. Yes, sir, it will.

The CHAIRMAN. Thank you.

What is your view about the warning system in human rights, the idea of warning a country that if it does not pull up its socks in human rights, that it is liable to lose its aid?

Mr. MOOSE. I believe, Mr. Chairman, this has become a regular part of a consistent theme in our foreign policy, and we certainly expect to continue that.

The CHAIRMAN. And what has been the fate of the American Schools and Hospitals Abroad Program? Is that still in force?

Mr. ATWOOD. That is still under the sustainable development title. The only new criterion that we have added is that those institutions that are funded contribute to sustainable development, but it is essentially the same as the current act. With the exception of that single new added criteria.

The CHAIRMAN. Thank you very much. I have got my five questions in under the 10 minutes.

Senator SARBANES. What is the impact of adding that criteria? It is rather substantial, is it not?

Mr. ATWOOD. Well, I am not sure. I would have to evaluate the programs. The point is that in addition to advancing American institutions as it has in the past, we want to ensure that the work being done contributes in some way to sustainable development.

Senator SARBANES. Which of the institutions that have received money in the past would you estimate would not meet that criteria?

Mr. ATWOOD. Mr. Chairman, I would have to do an analysis of that and provide an answer for the record. I do not know the answer off the top of my head.

Senator SARBANES. Would you think quite a number?

Mr. ATWOOD. I would think it depends upon how liberal one is about the interpretation, but I would think that most of them are certainly doing very worthy work.

Senator SARBANES. Well, I have to yield to Senator Dodd, but I want to make this point. I think we need, as we enter into this process, to try to be as clear as we can about what is being done and what the consequences are. Then we can make the judgment whether we think it should be done or not, rather than being vague about it, and perhaps going down a path the consequences of which we did not fully appreciate.

Now, that may be more controversial, but it seems to me it is better. The chairman has a strong interest in that program, as many of us do, and I think we have some sense of what your attitude about it is.

I may not agree with it, or I may agree with it in part and disagree with it in part, but I am not sure simply saying, well, it is the same, except we have added this criterion is really a fair way of putting it. My view of it is that the addition of that criterion, is intended to have a significant impact and will have a significant impact.

Now, if I am wrong about that, fine, in which case maybe we do not need to add the criterion if it is not going to make much of a

difference. If it is going to make a real difference, then we ought to have some sense of what it is in order to make the judgment about whether or not to add it or not.

Senator DODD. Let me just pick up on the point I think that Senator Sarbanes is making. First of all, let me commend you. I think this is terrific doing this. As you pointed out, it began not just with us, it goes back to the Bush administration, and I suspect most administrations have, to varying degrees, and I suppose to increasing degrees over the years, as they have assumed their responsibilities, looked at the often conflicting or duplicative mandates and criteria, but I think this is a wonderful opportunity here now to sort this out again after 33 years.

But as important, I think it is a wonderful opportunity to change the public perception. We have not passed a foreign assistance bill out of this committee since 1985, and that is not for lack of trying, as Senator Pell has pointed out, and I think all of us agree, or certainly would not argue with it, and the experience that both of you have had up here, unfortunately this is perceived as being almost un-American, to be engaged in a foreign assistance program.

Clearly, now, putting aside the issues of promoting democracy and peace, this has been a very rich program for a lot of States. Most States have been the direct beneficiaries of a foreign aid program. We are not very good at communicating that effectively to our States. My State was the beneficiary to the tune of \$250 million a year in the foreign aid program.

But I think we need to make sure that, as we are doing this, we also try to consider how we can be very clear about what we are doing not only to ourselves but clear to our constituencies so that we can reverse this trend and begin to lock in the value that people need to see as to the importance of foreign aid.

So I would just underscore what Senator Sarbanes has said. We do not need to have battles on those points, and you will find great allies, I think, if in fact you are looking for some additional points. So in the broad spectrum, I really agree with what you are trying to do, so the questions I am going to ask—and invariably what happens when you ask questions, it is on the point you may have some disagreement or some concerns.

Let me pick up on a question that Senator Kassebaum raised on the promoting of democracy programs in the 2102A3, the draft bill. You have touched on this, Brian, in your response, and I quote: "To help meet security challenges on a transitional basis that threaten to impede or reverse democratic reforms or institutions."

I would like to know what specifically we have in mind. Are we talking about military hardware? Are we talking about military advisors? Are we talking about getting involved in civil conflicts? Let us take a Chiapa situation, not in Mexico, but let us put it in some other country, if you want, a smaller country threatening that situation—is that a transitional problem of democracy?—and we all of a sudden get a request for us to jump in and provide some hardware.

Are we going back and revisiting some situations that I think we would hopefully have some second thoughts about? By the mere presence of this, does it invite applications for it? Could you put a

little more flesh on that section for me, and are those concerns I have just raised unwarranted?

But I get worried—transitional. I do not see—you know, we are not talking about a threat from the Soviet Union any longer, we are talking about a legitimate—to the extent you want to call it legitimate, internal conflict that could threaten the existing Government, I suppose.

Mr. ATWOOD. It is not envisioned that we would be supplying military hardware under that provision, Senator. What we would be attempting to do in a transitional situation is basic institution-building work, perhaps helping a society conduct an election, perhaps doing nonpartisan voter education programs in connection with that election. In other words, we would be trying to shore up democratic institutions, or trying to see the transition through in a very fragile situation.

Senator DODD. So it does not involve military assistance?

Mr. ATWOOD. It does not involve military assistance. However, it does not necessarily mean that we would not work with militaries to try to assure that they are operating appropriately within a democratic context.

What is key about this civil-military relations aspect of the democracy title is that we would be trying to make sure that there is respect for civilian rule, and that this is part of normal democratization work in the field.

Mr. MOOSE. If I might just add this one comment—it might help to clarify. I think Brian will correct me if I am wrong. I think we would consider that a country involved in a civil conflict which was still a hot shooting sort of a conflict would not be at a stage where we could consider it to be a country in transition.

We do not have a category for countries in turmoil, but such countries would not yet be in a situation in which it would be appropriate to think about working to help reform a military establishment. There would be authority for the professional development of nonpartisan military institutions, but that would have to come well after the time when people had stopped shooting at each other.

Senator DODD. Well, all right. Again, this is an area where there is some interest. I commend you, by the way, for the decision—I think you are down to five countries that receive military assistance, Israel and Egypt being two, and there is not a single Latin American nation that receives military assistance. I commend you for going in that direction. I think it will be a separate category, and we ought to stay away from that kind of stuff.

However, I would point out that we have military advisors in a lot of countries. Even though we are not providing aid specifically, what do you envision with a military advisor approach in the context of this reform?

Mr. MOOSE. I think we may see in certain countries where we have advisors or military missions, I have seen some of them on recent travels, and they may be there in connection with international military education training programs. They have a great deal to do with military to military relationships in which our people are trying to inculcate and transfer some of the values and respect for democratic institutions that our military is so noted for.

I think you have some of that, and there will be a few of those programs which will continue, but it will not be a major emphasis in this bill.

Senator DODD. I appreciate that, and I appreciate the effort over the years.

I could cite too many—and I know you could probably add to my list, Dick, of those that we trained, including some of the folks in Haiti today. They are the beneficiaries of training programs. Talk about doing something for less than paragons of virtue when it comes to supporting democratic institutions. That is just a note of caution. Every time we turn around, I know there is a strong desire for reform, but every time we speak of reform, something less than reform seems to happen. I would just ask you to look at that a little more carefully.

Is there any sense, any prioritization of our goals? I commend you for boiling this down. For instance, is building of democracy more or less important in promoting peace? Is there a sense of priority in the listing you have here?

Also, let me ask you in the context of it, some things I might have you take a look at. You know, sustainable development, boy, I get glaze over the eyes of my constituency with that phrase in a second. There may be 10 or 15 people in town who know what sustainable development is. When I go back to the Naugatuck Valley in Connecticut, and I say we are going to spend x amount of your taxes on sustainable development, I am afraid I might run right back into that problem that I identified earlier for you.

To the extent that we can be clear and precise about what we are doing here, it is important.

Mr. ATWOOD. I think you are right, Senator. I do think that the phrase, sustainable development, is gaining currency, but I am not sure whether it has reached Hartford—

Senator DODD. Hartford, it may have.

Mr. ATWOOD [continuing]. Let alone Naugatuck Valley.

Senator SARBANES. Well, if it has not reached Hartford, it has not reached a lot of other places as well, I will tell you. [Laughter.]

Senator DODD. Well, it is a first stop.

Mr. ATWOOD. It is important for us, it seems to me, as a Nation engaged in—

Senator SARBANES. Mark Twain would have said that, would he not?

Senator DODD. He could have written a whole book on sustainable development.

Mr. ATWOOD. I think the phrase probably first gained some currency, Senator, during the U.N. environmental conference in Rio where there was a lot of discussion on the part of environmentalists about doing development work in a manner that is consistent with the preservation of our ecological systems.

We want to emphasize at USAID the importance of engaging in projects that can be sustained over time, so that if USAID were to move out of a country, it leave behind some institutionalization of the work that we were doing and the people of the country could carry on the work. That is why we are emphasizing participation so much. We are working with people in the rural areas much as the Peace Corps has done in the past.

USAID missions tend to work too much, in my opinion, with government ministries. That interaction needs to be done to create the overall environment and legal framework, but it is important to work more with people when we think we can achieve sustainability.

Senator DODD. What about the prioritization issues? What are the categories?

Mr. ATWOOD. What we are offering here is a framework that we think most administrations would be able to fit their foreign policy into. It is clear, with respect to our priorities, that democracy is a high priority, and that the work we are doing under title II in the former Soviet Union is a very high priority.

It is important that we see sustainable development as a method of crisis prevention. That has to be a very high priority for any administration, but we fully expect, as expressed by the bipartisan manner in which we are introducing this legislation, that it is a framework in which others could see other priorities expressed.

Senator DODD. Did you want to comment on that, Dick?

Mr. MOOSE. I was just going to say, one of the things that strikes me is, no, I do not think we prioritize them one, two, three, four, five, but I think probably most of the folks at USAID would say that sustainable development is the most important. But the way I look at it, it is very unlikely that one can have sustainable development in an environment in which there is not peace in a region, or in a country in which there is not democracy, in which democratic institutions are not functioning.

We have seen too many instances in which that has been tried. We have tried to put aid programs into countries that were essentially in war, and ones that were in fact thoroughgoing despotisms, and it did not work for some reason. One of the reasons why it did not is because you need popular institutions to sustain and support them.

Therefore, I think these strategic objectives here are interlocking for the most part, and that is one of the things I think Brian was trying to do when he went through the existing programs and said, hey, listen, these countries here are ones where we think the conditions are appropriate, and where it can work, and there are others where we have been trying but it does not work and we are not going to try it there any more, because the conditions are not right.

Senator DODD. Mr. Chairman, could I just ask one last parochial question?

Senator SARBANES. Surely.

Senator DODD. Again, as I am sure you are all aware, I chair the Western Hemisphere Subcommittee. Senator Kassebaum raised the issue of Africa, and I cannot miss the opportunity to raise the issue of Latin America with you.

This is a critical time for these countries. Today, we have more nations who have embraced democracy in this hemisphere than at any point since the arrival of Columbus 500 years ago. Many of them are fragile, very fragile. It is going to take special help to see them through this process and to demonstrate to their people that democracy produces a quality of life in terms of jobs, housing, and other fundamental issues that is going to be sustainable as a political process.

The hit has been pretty substantial. We have gone from a cut by two-thirds from 1993 levels, from \$304 million to \$91 million for the whole region. I realize there are tremendous demands from Russia and elsewhere, and I am not trying to be overly greedy here about this, but gee, I think we would regret so deeply in a couple of years with countries that are struggling to make it and with some targeted assistance and help can become self-sustaining and self-sufficient.

I am just curious as to whether or not you are anticipating another hit in this region in the next round. It is going to come up pretty quickly. We are down to pretty bare bones here. I know NAFTA, people are talking about extending it in the hemisphere, but I suspect that it is several years down the road before it reaches some of these countries, particularly ones that really need the help.

The ones that are pretty aggressive, Argentina, Chile, and others, will probably get NAFTA pretty quickly, but if you are a struggling little country in the Caribbean or Latin America, you cannot probably look to NAFTA in the short term, and in the absence of some help here, we may lose some of these countries that will seek alternatives.

I note that in Costa Rica on Sunday the party there that moved away from privatization and the kind of things we are promoting won an election. The patterns may not necessarily set in here, but I do not want to miss that opportunity, and I did not want to have you come and go here without expressing what will not come as any great shock to you, my deep interest in seeing that we not lose the opportunity here—because things look pretty good, sort of move on.

Mr. ATWOOD. It is a very serious question, Senator. Without getting into a discussion about the budget allocations and the proposal we are making for fiscal 1995, I would like to comment on one aspect of this. We have proposed reform legislation that deals with sustainable development as part of a single title.

We have mentioned Africa in this title, but we have not designated authority for separate appropriation for any region. We would like to be able to pursue development where it is needed most. I would suggest to you that the reason we have cited Africa is because we believe that is where it is needed most.

We believe that there have been some fundamental transformations in Latin America, very positive ones. I agree with you that they are fragile. We believe that our program in Latin America is going to focus in the future on working with countries that are preparing to enter NAFTA-type agreements on such issues as workers' rights as it relates to democracy and the environment—these are the issues that we raised with respect to Mexico—and that we will be able, with the limited funds that we have, to focus on these problem areas.

Central America remains a serious concern of our country, and it is a development concern as well. I am going to El Salvador next week to express that concern on behalf of our Government, but we really believe that many of the countries in the region, now that they have gone through their structural adjustments, are now able to work with credits and loan programs in the Inter-American De-

velopment Bank. This will compensate some for the cuts that have been made in our own bilateral concessional grant programs, but it is a serious matter.

Senator DODD. I appreciate your saying that. Do not misunderstand me. With some of these countries, trade and investment are more important than a small amount of aid, given the choice.

Mr. ATWOOD. Right.

Senator DODD. I like the idea, though we are thinking differently about all of these issues, and the fact that there has been such an emphasis on trade issues in Latin America is really helpful, but as I say, sometimes the ones that qualify for the trade, or that will not qualify for the trade and investment do need the aid ingredient to sustain them until they do.

Thank you. Thank you, Mr. Chairman.

Senator SARBANES. It is not quite clear to me, and it is something obviously we need to think more about, why eliminating some of these things like the Development Fund for Africa, which No. 1, are clearly needed, No. 2, bring you support in the Congress, and No. 3, bring you support in the country, why taking that out is desirable in the name of flexibility. I have difficulty with that, and the same thing I think would exist with respect to other programs.

I do not think you can proceed on the assumption that there is some kind of commitment either in the Congress or in the country to provide money for foreign assistance unrelated to the specifics of how and where the money is going to be used.

Now, I understand if you tie it down too tightly the executive loses some flexibility. We want to try to respond to that concern. But on the other hand, if you do not have some of this linkage you are going to lose or reduce what little support may exist. I think we need to think about that very carefully.

Mr. ATWOOD. Mr. Chairman, I would make a distinction between framework or charter legislation of this type and the annual appropriations bill or the budget request that comes up. You will see in the fiscal 1995 budget request of the President that resources are being requested specifically for the development fund for Africa. It is not as if we are attempting, through this means, to lose for ourselves the kind of political support needed to support a foreign assistance program.

Senator SARBANES. Well, let me just walk through this. Would you turn to pages 48 and 49 of the bill as it has been printed up in the House?

Mr. MOOSE. Would you give us the section?

Senator SARBANES. Section 3102, General Authority. I want to walk through this with you and I want to try to see if I understand what it means.

(a) IN GENERAL.—The President is authorized—

* * * * *

(2) to furnish assistance to foreign countries, and international and regional organizations and arrangements for peacekeeping, international activities directed to the restoration or maintenance of international peace and security and other programs carried out in furtherance of the national interest of the United States.

So we are giving the President the authority here to furnish assistance to foreign countries in furtherance of the national interest of the United States, correct? That is a broad general grant of authority to the President.

Mr. MOOSE. Right. That is correct, Mr. Chairman.

Senator SARBANES. Now, that is military assistance, economic assistance, any kind of assistance, is that correct?

Mr. MOOSE. It is, indeed. This is one, for example, on military assistance this is one of three places in the bill where military aid programs are authorized specifically. [Pause.]

I am being corrected, Mr. Chairman. I had in mind another portion of the same chapter. This is the general peacekeeping portion.

Senator SARBANES. What is the other portion. We had better identify that while we are at it.

Mr. MOOSE. That will be in the——

Senator SARBANES. You might as well tell us. We will find it sooner or later.

Mr. MOOSE. That is in Chapter 3. [Laughter.]

That would be in Chapter 3 of this same title under Regional Peace Security and Defense Cooperation. You would find that probably in 3302.

Senator SARBANES. 3302. All right. Maybe we will go there next. Now, what about here? We are giving the President the authority to give military assistance to any foreign country, correct?

Mr. MOOSE. In the context of a peacekeeping operation, Mr. Chairman. The structure of this particular part of the bill, this is Chapter 3—I mean Title 3—you have Chapter 1, Peacekeeping and Related Programs, which is where you are right now in 3102. Then there is Chapter 2, Nonproliferation and Disarmament. Chapter 3 is Regional Peace, Security, and Defense Cooperation. Then there is one on narcotics, terrorism, and crime. Those are all chapters within this Title 3 on promoting peace.

Senator SARBANES. Well now, I am having trouble reading this. Maybe I need one of your nefarious lawyers here. "The President is authorized to furnish assistance to foreign countries," and then it goes on with a lot of other things. But none of those "ands" are essential to the first clause. In fact, we do not pick up with a comma, just "the President is authorized to furnish assistance to foreign countries," and this embraces military assistance.

Mr. MOOSE. We are picking up here and incorporating in this new proposed act the authorities that are virtually identical to those that exist in current law for voluntary peacekeeping contributions, the peacekeeping operations account that is authorized under the Foreign Assistance Act.

Senator SARBANES. Now, does the current law have a provision like paragraph (c) on page 49: "Funds made available to carry out this chapter may be made available notwithstanding any provisions of law that restrict assistance to foreign countries."?

Mr. MOOSE. This is a new provision of law which pulls together the authorities for the President to support peacekeeping operations under and within the context of a policy which has been laid out in recent days. We have tried to put flexibility here to allow us to clarify our current practice. Existing law allows the provision

of peacekeeping assistance to the UN and for other peacekeeping efforts.

We are trying to pull together in one place here authorities for the President to engage in peacekeeping operations and to make funds available to transfer—you will see in the next paragraph—to transfer funds from one account to another under these authorities for the purposes which you read earlier in 3102(a)(1) there.

Senator SARBANES. Does the current law have a provision comparable to paragraph (c) on page 49 which says, "Funds made available to carry out this chapter may be made available notwithstanding any provisions of law that restrict assistance to foreign countries."?

Mr. MOOSE. The answer to that is no.

Senator SARBANES. But that is a new authority?

Mr. MOOSE. The short answer to that is no.

Senator SARBANES. That is a new authority, is that correct?

Mr. MOOSE. We are trying—for example, we are trying to provide authority there, flexibility there, to cover a situation, for example, as might exist in the peacekeeping operation under the United Nations. And there might be another country involved in that UN peacekeeping operation which would require assistance in the form of equipment necessary to carry out their mission, their peacekeeping mission.

We might face a conflict involving a country to which U.S. military assistance on a bilateral basis was prohibited. And yet by using this authority in the proposed law here we would be able to provide articles of defense equipment.

Senator SARBANES. Would you say that the authority that you are providing, the notwithstanding authority here, is a grant of authority far in excess of what would be necessary to meet the example you just gave me? In other words, the example you just gave me could be dealt with by a grant of authority significantly less than the grant of authority here. Would that be correct?

Mr. MOOSE. It could be done, but you might have to pass a law. You might have a situation in which the defense or other equipment were needed immediately and it would be impractical to have a law passed. There might be another provision of law which would allow it.

Senator SARBANES. Well, you could define the grant of authority in the terms in which you just defined them.

Mr. MOOSE. You mean to make it a specific exemption for the UN? We have come very close to doing that here. We are talking about international peacekeeping activities, and I just gave a specific case. But one of the things we are trying to move away from is a system in which a very specific authority is drawn up to meet certain kinds of anticipated situations to create an authority there.

We are trying to create a flexibility here for the accomplishment of purposes which we have defined at great length in the law, saying here are the things that we would propose to do under this chapter. And in order to do those things, to be prepared to do those things in various contingencies, we believe that it is desirable to have this type of flexibility.

Now, if you agree that these are desirable purposes, let us talk about the kind of operational flexibility which is required some-

times to accomplish them in unusual situations. And we are saying this is an authority which we believe is required to enable us to be effective in peacekeeping operations.

Senator SARBANES. Well, it is a very broad authority. We will address that.

My time is up. Before I yield to Senator Jeffords let me say I am troubled by this. I have to tell you, and I have to come back to it, is one of those nefarious lawyers here with you?

Mr. MOOSE. Excuse me, Mr. Chairman, we have no nefarious lawyers.

Senator SARBANES. Fair enough. I do not want to put a cloud over them.

Mr. MOOSE. We have some very clever ones, though.

Senator SARBANES. Am I correct that the amendments to the Foreign Assistance Act are incorporated within the Act as it is published in this document?

Mr. LESTER. The first 300 pages or so of that green book is the Foreign Assistance Act of 1961, as amended.

Senator SARBANES. As amended.

Mr. LESTER. Right. But there have been other provisions of law enacted.

The last time there was a major foreign assistance authorization act was in 1985. That act contained many free-standing provisions of law which still apply today but did not actually amend the Foreign Assistance Act. So actually, if you want to compare apples and apples, you would be looking at approximately the first 500 to 550 pages of that green book.

Senator SARBANES. Well, except the very next thing that comes is the Export Control Act.

Mr. LESTER. The Arms Export Control Act, that is right. And several of those provisions have been incorporated into the rewrite of the Foreign Assistance Act that was introduced a week and a half ago.

Senator SARBANES. Well, I am not going to let it stand as it was demonstrated at the table. I mean, this is the 300 pages that is the Foreign Assistance Act [indicating].

Mr. LESTER. That is correct.

Senator SARBANES. This part back here is the appendix. We ought to strip that out of there right away. You have got all the defense bills back here, et cetera, et cetera. So there is a problem. But I do not want to overdramatize it here.

Mr. LESTER. You still have approximately 150 to 200 pages, closer to 200 pages, of what we would call free-standing provisions, provisions that did not amend the——

Senator SARBANES. That are related to the Foreign Assistance Act.

Mr. LESTER. Correct. Provisions that do not amend the Foreign Assistance Act but still govern our programs.

Senator SARBANES. Well, this is an 1,800 page book, and you have given me about a fourth of it, right?

Mr. LESTER. Right.

Senator SARBANES. Senator Jeffords.

Senator JEFFORDS. Thank you, Mr. Chairman. It seems that a number of the less developed countries, especially those in sub-Sa-

haran Africa, are caught in a continual cycle of debt. This debt transfer problem often results from the failure of large development projects funded by the multilateral development banks. A study conducted by the World Bank's own internal watchdog, the Operations and Evaluation Department, OED, indicated that a large percentage of the bank's projects were judged unsatisfactory and some complete failures.

In 1989, OED reviewed 82 agricultural projects, of which 45 percent were judged to be unsatisfactory. In nine of the projects reviewed, agriculture production was seen to decline at the end of the investment case, not go up. Failure of large projects in countries such as these reduces their potential to accumulate foreign capital through exports, putting further pressure on them to borrow to avoid a complete collapse of their economy.

It also forces government domestic austerity programs on the part of those borrowing countries as well as forcing them to intensify efforts to increase export earnings. This reduces the governments' expenditures on internal education, health, and environmental projects. In addition, it puts an incredible strain on the countries' natural resources, forcing countries to harvest their forests at a quicker rate, extract minerals without regard to the environment, and harvest crops in an unsustainable manner. How does the administration's plan deal with a debt crisis in the short term. And in the long run, how can we prevent this cycle from continuing?

Mr. ATWOOD. Senator, you have really discussed a very important problem as it affects Africa. It affects a lot of the poorest nations in the world. Of course, if they are the poorest nations, they are eligible for the soft loan window of the World Bank, which means the terms are as favorable as any loan program in the world.

We obviously are not, in this bill, authorizing the relationship that we have with the MDB's. There is a discussion of the importance of the multilateral development banks in the sustainable development title, and there is clearly an implied admonition to better coordinate our policies with the Treasury Department that works with the World Bank directly. And there is an admonition that we do a better job of donor coordination.

It is true that concessional grant programs are only one aspect of our development programs and that we seek through those programs to leverage other resources to bring to bear on a problem. We also will coordinate with the Treasury Department on efforts to try to excuse debt, and there will be an effort made in connection with the fiscal year 1995 budget to excuse some of the African debt.

We are right now trying to respond to the problem, and an opportunity has been presented by the devaluation of the CFA franc in many of the francophone countries of Africa. That is going to require action on the part of the International Monetary Fund and the World Bank, and us, as we deal with the fallout from that problem.

Senator JEFFORDS. In September of this year officials from across the world will meet in Cairo to consider world population growth. As you indicated before this committee in June of last year, overpopulation leads to environmental damage or drives people to over-

use farmland, to strip land for firewood, and to exhaust water supplies. Overpopulation pushes the rural economy to the point of collapse, imperils migration, and feeds social disorder.

I agree with you that the numbers on population are alarming, and that the impact of this growth on the environment is deeply concerning. In Africa, for example, many cities are growing so rapidly that they could double in size in the next decade. In Kenya, with a growth rate of 3.7 percent per year, if sustained would cause the population to double in two decades. This growth is putting incredible pressure on the resources of many African countries leading at times to extensive land degradation, deforestation, contaminated water, threat to endangered species, and of course, poverty.

There is an obvious link between population growth and sustainable development. Many Americans and other people across the globe are sensitive to the issue of population control. Clearly, we have moved beyond this archaic terminology and are now looking at programs which empower and educate women, and focus on family planning and improvement in health. How will the administration's proposal address this problem? Is there adequate funding to implement those programs?

Mr. ATWOOD. Senator, under the sustainable development title of this reform bill, stabilization of population growth is one of the four major objectives that we seek to achieve. It is a very serious problem that affects development in those parts of the world where populations are growing so quickly.

You mentioned that there is this UN Conference on Population in Cairo, and we are hoping, through our leadership, to encourage other countries to contribute to the provision of family planning services. We also want to encourage some of the other programs that you mentioned such as offering women the full range of services so that they can better space their children so that there is enough food on the table for the family and so that we can deal with the problem of overburdening the infrastructures of these cities.

Senator JEFFORDS. Finally, there was discussion last week with people familiar with the AIDS problem in Africa and the incredible percentage of certain populations that are suffering from the HIV virus. What do you foresee as the impact of that problem, and what are we doing to try to assist in that regard?

Mr. ATWOOD. We are working on the preventive side. Obviously, our Government, through the National Institute of Health [NIH], is doing a lot of research on AIDS, and we are USAID is funding some research. But we are working more on the preventive side of this problem.

We see here in this particular disease, and in others such as tuberculosis and polio, that there is a direct impact on our population in this country. So our foreign assistance programs have more than a theoretical impact on our domestic interests, and this is one instance that is very dramatic.

It is also clear that the loss of biodiversity is having some impact on the growth of these viruses that are threatening humankind all over the world. We do not know exactly what that impact is yet, and that is why we must move not only to deal with AIDS as a disease and to try to prevent it from occurring and spreading, but

we must also work more broadly on the environment because it is clear that the loss of biodiversity through deforestation, for example, is having an impact on the creation of viruses and parasites and other things that are threatening to mankind.

Senator JEFFORDS. Thank you, Mr. Chairman.

Senator SARBANES. Senator Kassebaum.

Senator KASSEBAUM. Mr. Chairman, I would just like to ask unanimous consent that a question from Senator Brown be submitted to be asked.

My concluding comment is how important I think it is for us to understand sort of specifically how reform will improve, be more effective, in handling the foreign assistance policy than previously, and can point to specific situations where we can explain it. I think that would be very useful. I like the idea that it is considered a foreign policy bill, not a foreign assistance bill. I think that helps to put it in another dimension.

I will not ask specifics, but I cannot help but think as we look at different areas, as Senator Dodd was mentioning, there is Zambia where there was a democratic election. President Chilupa a year ago was here with high hopes of what would happen in Zambia. Now, unfortunately, seemingly much has gone awry, probably from past errors.

But how specifically, then, do we look at these situations as we mark up our foreign assistance legislation. Not to belabor the point right now, but I do think it will be useful the more specific we can get in comparing where reform will help versus how it has been in the past.

Thank you, Mr. Chairman.

Senator SARBANES. Thank you. I think that is a very appropriate comment.

I have a question from Senator Murkowski to Administrator Atwood, and I will submit that for the record, if you could respond. [The information referred to can be found in the appendix.]

Senator SARBANES. Gentlemen, obviously this is a subject that we could go on at great length about. I think we have gotten off to a good start here for the opening session, and I think I will draw this hearing now to a close.

Mr. MOOSE. If I could just make one point, triggered by the very interesting comments of Senator Kassebaum. Mr. Chairman, I think, as I have listened to what Brian and I said and the questions on the mind of the committee, one of the things that I find unusual about the bill, and it has taken some time for me to get my mind around the whole thing and I certainly do not have it in all of the nooks and crannies of the bill, but it is a very unusual effort to sort of regroup after 30 some odd years of working on a rather single-minded critical premise which organized our foreign policy and our foreign assistance and to say at this particular juncture in history and the experience of the United States what should be the overriding principles that frame our foreign policy and therefore should frame our foreign assistance.

We have proposed here five categories, spelled them out at great length, and specificity, the kinds of things, activities that we believe would contribute, for example, to the promotion of democracy, and have said that in order to promote democracy using these ac-

tivities here we believe we need these kinds of authorities. And we have tried to pull the things together so that we and you and the public have a basis for evaluating the things that we propose to do when we send up the money bill.

We have put out there for your use a framework. We call it a charter often. And if we ask you for money to do something we have set ourselves, we have committed ourselves, to justifying it within the framework of one of these activities. If we propose to use some of the money that you have already authorized and appropriated, it must meet the test that we have laid down ourselves within the framework of this act.

If, after we have spent the money, then you go and you look at it and you do your oversight, and you say here is what Administrator Atwood said he was going to do when he asked for this money and he got it and he spent it, and here it is. We will judge it against this charter that is here. So we hope that it will make it possible for all of us to work together.

Now, we can argue as to whether one activity or another really contributes to sustainable development and whether sustainable development is desirable or whether it contributes to democracy. In this document, we want to have this dialog with you about the things that we believe are required to carry out a foreign policy that is being framed in terms that are very much like these.

Senator SARBANES. Well, this is all done at a level of broad generalities. Suppose someone came to you and said I want you to give me \$3 billion to promote democracy?

Now, what is the next step? Do you say yes? Promoting democracy is a very desirable objective and I am very much for it. And here is the \$3 billion. Come back next year and we will see what you did with it?

Mr. MOOSE. We would have said we propose to promote democracy by doing these things that are listed here in this section, and you could look at those and decide whether you thought those were desirable things and would contribute to democracy or not. You could probably stop us from going down that road if you wanted to.

Senator SARBANES. Well, I just want to make this observation: The other budgets for the other departments are authorized and appropriated to accomplish specific purposes. There is a tendency here to treat the earmarks as though somehow they are an imposition upon the Department. In fact, it is no more imposition upon the Department than what any other department encounters when its budget is put together. In fact, to the extent that you have a reservoir of money in certain program areas that is not earmarked, you are getting a latitude that is generally not available to other departments.

Now, I am receptive to trying to get you some more flexibility, particularly on the administrative and operational side, but also on the program side. But I do not think the starting premises should be that somehow you have been adversely dealt with by the Congress because it has not given you a lump of money for you to use as you wish within certain broad policy objectives. There is no department that gets money like that.

Mr. MOOSE. But we will come back to you with a congressional presentation document that is going to show programs, projects,

and activities. I mean, there is no money in this bill, there are no numbers here. You have the opportunity to make the judgments that you are talking about when we come back to you with the actual request for money.

Mr. ATWOOD. May I just say, Mr. Chairman, a final word on this question? I now direct an agency that has not, I guess to be mild about it, had a great deal of programmatic integrity in the past in the sense that if you asked anyone on the street, or anyone on Capitol Hill even, what USAID was supposed to be doing, they would have a hard time defining it other than as foreign aid. And foreign aid is a generic term.

We have been given a number of mandates by the Congress, all of which, it seems to me, had some merit at the time. And it was perhaps a reaction to a feeling that the administration was not doing enough in this area or that. That is one way of operating.

Another way of operating is to try to create programmatic integrity and have a consensus between the legislative branch and the executive branch as to what the goals are so that you can more effectively hold us accountable for the work that we do in that agency and to distinguish between the goals and the means we use to achieve those goals. The means are different in each setting, and you will find when you go to an African country, that you are dealing with a certain set of problems and certain set of needs. You would use certain means to achieve the overall goals that we have established for ourselves in one country and different means in another.

Senator SARBANES. That is why we gave you the Development Fund for Africa, as I recall.

Mr. ATWOOD. That is right.

Senator SARBANES. In fact, we did that, we brought things together. We gave a more general authority.

Mr. ATWOOD. That is right.

Senator SARBANES. We gave a fair amount of money for it. We gave \$800 million. We wanted to go to a billion, but we gave \$800 million and we provided considerable flexibility in the use of that, both country flexibility and program flexibility. Is that not correct?

Mr. ATWOOD. Yes it is, Mr. Chairman. And what I am saying to you is that if you gave me that type of flexibility to conduct our worldwide program, then that is all we could ask for. In essence, we have taken the best aspects of the Development Fund for Africa and incorporated them in the sustainable development title.

Senator SARBANES. I know, but if you were going to generalize it that far, then there is no understanding here on where the money is going to go. In that case, you may not do as much for Africa as people here want to see done or you may do significantly more somewhere else. But I agree you ought to have some ability to move some moneys around.

Mr. ATWOOD. But that is the process that you are authorizing or creating a framework for if you adopt the charter legislation that we have submitted. We would have to present to you country-specific objectives and amounts of money. If we exceeded the amounts of money we would have to notify the Congress as part of the procedures. Then we would, of course, have annual appropriations that are authorized by that charter legislation. So it is not as if we are

trying to change the rules of the game here. What we are trying to do is to focus our entire Nation on goals and objectives as opposed to focusing on mandates that relate more to means as opposed to ends.

Senator SARBANES. Well, let us try to get at this. I mean, do you think that we should give the President the authority to make military aid available to any country not withstanding any other provision of law?

Mr. ATWOOD. The peacekeeping proposal that has been presented, if you can write positive authority for that, you know, I think it deals with a problem that our country faces right now. We have to respond when we decide that it is in our interest to respond to a peacekeeping situation. We should be able to respond, as the remaining superpower, in a fairly expeditious manner. If it can be written in a more positive way, then fine.

Senator SARBANES. Well, let me ask this question of you and Mr. Moose. On the bottom of page 48—I am sorry, this is Section 3102, paragraph (b)(3). "If the President determines and reports to Congress that doing so would promote the purposes of this chapter, funds made available under either paragraph (1) or (2) may be transferred to, and consolidated with, funds available for the other such paragraph and may be used for any of the purposes for which funds under that paragraph may be used."

So you could take all of the funds that are in one category and shift them to another in terms of the categories established in this section, is that correct?

Mr. MOOSE. In theory, yes, you could. There are two general authorities here. One is for the assessed and other peacekeeping activities, and the other is for the more or less voluntary peacekeeping activities. Those, at present and in the future, are authorized and appropriated in two different places. One is the CIPA account—essentially, it is the CIPA account. The other are the voluntary peacekeeping contributions.

What we are saying here is that in order to marshal the funds that may be required for a particular operation the President would be able, under this authority here, to transfer funds, yes, all of them, from one place to another. That would be very unusual. But in theory, yes, that would be possible.

Senator SARBANES. Not in theory, in law.

Mr. MOOSE. In law. In law it is possible, yes. But in practice it is unlikely that that would happen, because at the point the question would arise, some of the funds, from one account or the other, would have already been spent. So it probably would not fall out that way.

Senator SARBANES. Well, let us continue to work at this in a forthcoming and cooperative way, because I think the overall objective we are trying to accomplish is very important.

Gentlemen, we thank you for your testimony, and the hearing is adjourned.

[Whereupon, at 4:15 p.m., the hearing was adjourned, to reconvene at 10:25 a.m., February 22, 1994.]

FOREIGN AID REFORM

TUESDAY, FEBRUARY 22, 1994

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC
POLICY, TRADE, OCEANS AND ENVIRONMENT
OF THE COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:25 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Paul S. Sarbanes (chairman of the subcommittee) presiding.

Present: Senators Sarbanes, Feingold, Kassebaum, and Jeffords.

Senator SARBANES. The committee will come to order. Today, the subcommittee is holding its second hearing this year on the administration's proposal for foreign aid reform. I emphasize "this year" because we consider this to be part of an ongoing series begun last spring to examine foreign assistance programs in the overall reform process.

Our witnesses today will be largely from the public sector, representing groups and organizations that have been working closely with us and with the administration to rewrite the Foreign Assistance Act of 1961. I will be very brief. We have a number of witnesses this morning we are looking forward to hearing from and a number of important issues to address.

Many organizations and individuals have requested permission to testify and we are obviously not going to be able to accommodate all of them. We have tried to pick a representative sample, although I am not sure that is exactly the way to describe our witnesses, and we encourage interested organizations to send us their views and comments on the administration's proposals. We would be very pleased to receive that information.

Before I turn to our two colleagues who are at the witness table, I will turn to Senator Kassebaum for any comments she may have.

Senator KASSEBAUM. Thank you, Mr. Chairman. I do not have any opening comments. I think we do have some excellent witnesses this morning and I look forward to hearing their testimony.

Senator SARBANES. Senators Bingaman and Simpson had requested to testify on a bill they introduced last summer, S. 1096, the International Population Stabilization Reproductive Health Act. Gentlemen and colleagues, we would be very happy to hear from you at this point. Senator Bingaman, I am sorry to have held you up.

STATEMENT OF HON. JEFF BINGAMAN, U.S. SENATOR FROM NEW MEXICO

Senator BINGAMAN. Mr. Chairman, we appreciate very much the chance to be here.

Senator Simpson and I have put together legislation, S. 1096, which addresses three critically important issues: first, the need to put global population stabilization at the top of our foreign aid agenda; second, the need to promote sustainable development; and third, the right of women no matter where they live in the world to economic and social equality.

This legislation is accompanied by a companion bill in the House, which Congressman Beilenson and Congresswoman Morella introduced last year. And I am sure you, Mr. Chairman, and Senator Kassebaum can recognize, this legislation is a followup to legislation that our former colleague, Senator Tim Wirth, proposed in the previous Congress with Senator Simpson.

This legislation, we believe, represents a commitment to women and families worldwide. It sets priorities on global population stabilization, economic opportunity, and reproductive health care. These are issues that Senator Simpson and former Senator Wirth worked on for several years, and I am very pleased to be joining them in their effort.

We are also pleased that the new administration, under President Clinton, has taken an active role on population issues, sustainable development, and international family planning efforts. As you know, President Clinton reversed the longstanding Mexico City policy which deprived worthy organizations and thousands of women of much needed family planning assistance.

More recently, your committee has been sent legislation to reform the U.S. Foreign Aid Program. Our view—Senators Simpson and Bingaman—is that the priorities we deal with in our bill need to be at the top of the legislation we in Congress wind up enacting in this area. The problems of global population growth are enormous. It should not take any great exposition of those problems to convince people of that. The simple fact is that the world population is presently growing at a rate of about 10,000 people per hour. It is very difficult to deal with any of the other problems of development with that critical fact going unaddressed.

Under this bill, we set global and U.S. expenditure targets for overall population assistance and for specific programs in the various areas addressed in the bill. In addition, the programs authorized under the act would help reduce global maternity and infant mortality rates, and improve the overall health status of women and their children, by addressing such problems as malnutrition, low immunization rates, and the spread of contagious diseases.

Mr. Chairman, with the legislation you have from the administration, I think the most useful course of action is for this committee and its staff to do a comparison of our proposed bill, Senate Bill 1096, with the administration's proposal and hopefully take provisions of our bill that would strengthen the administration's proposal in these areas and adopt them as part of the legislation that you report to the Senate.

I do think there is a great opportunity for us to go on record as examining and addressing this very real problem, which permeates

all of our foreign policy. I commend the committee for its attention to the issue, and thank you for the chance to testify.

[The prepared statement of Senator Bingaman follows:]

PREPARED STATEMENT OF SENATOR JEFF BINGAMAN

Mr. Chairman, the distinguished Senator from Wyoming, Senator Simpson, and I, along with the cosponsors of our legislation, Senator Simon, Senator Packwood, and Senator Bumpers, thank you for convening today's hearing. We appreciate the opportunity to discuss with you three critically-important issues:

- (1) the need to put global population stabilization at the top of our foreign aid agenda;
- (2) the need to promote sustainable development; and
- (3) the right of women—no matter where they live in this world—to economic and social equality.

Last summer, Senator Simpson and I introduced S. 1096, the "International Population Stabilization and Reproductive Health Act." Congressman Beilenson and Congresswoman Morella introduced companion legislation in the House. Through drafting and introducing our legislation, the four of us were renewing a Congressional commitment made by our friend and former colleague, Senator Tim Wirth, who is now State Department Counselor.

Ours is a commitment to global population stabilization, economic opportunity, and reproductive health care. For years, Senator Wirth and Senator Simpson have championed these issues. I am proud to be a part of their effort today.

Mr. Chairman, after more than a decade of U.S. inaction on population stabilization, we have entered a new era. Already, President Clinton and his administration have taken an active role on population issues, sustainable development, and international family planning efforts.

Within days of his inauguration, President Clinton had reversed the long-standing "Mexico City" policy, which deprived worthy organizations—and thousands of women—much needed family planning assistance. More recently, the President sent to your Committee charter legislation for reforming U.S. foreign aid programs, which a number of experts will discuss today.

At last year's "Second Preparatory Meeting for the 1994 International Conference on Population and Development," Senator Wirth first presented the administration's vision on global population, sustainable development, and reproductive health. He then set forth a series of goals for addressing the challenges we face.

The "International Population Stabilization and Reproductive Health Act" is, I believe, a good and solid legislative framework for the work of the administration, the Committee, and the full Congress. Our bill—like the administration's proposal—focuses U.S. foreign policy on a coordinated strategy that will:

- help achieve world population stabilization;
- encourage global economic development and self-determination; and
- most important, improve the health and well-being of women and their children.

I believe these three objectives are inter-dependent: none of them can be achieved without an equal commitment to all of them. The way I see it, U.S. efforts to help develop economies and promote democracy around the world will be futile if we do not first address the staggering rate of global population growth.

How can we expect under-developed countries to pull themselves up when the world's population is growing at a rate of more than 10,000 people per hour? When the women and men who make up a nation's workforce pool do not even have the right to *plan* their families? And when millions of women around the world do not have access to basic—and lifesaving—reproductive health care or educational opportunities?

Fundamental to this Act is a recognition of this fact:

Worldwide efforts to alleviate poverty, stabilize population, and secure the environment are undermined profoundly by a lack of attention to women's reproductive health and the role of women in the economic development of their families, their communities, and their countries.

Under the Act, global and U.S. expenditure targets will be set for overall population assistance and for specific programs that will:

- help achieve universal access to culturally-competent family planning services and reproductive health care;
- expand programs for research, treatment, and prevention of AIDS and other sexually transmitted diseases;
- close the gender gap in literacy and primary and secondary education; and

- increase economic opportunities for women so that they can realize their full productivity potential.

Other programs authorized under the Act will help reduce global maternal and infant mortality rates and improve the overall health status of women and their children by addressing problems such as malnutrition, low immunization rates, and the spread of contagious diseases.

I commend our legislation to you and your Committee. I urge your staff to compare S. 1096 with the administration's proposal and to use our legislation as a tool for enhancing and improving the President's bill. Mr. Chairman, I look forward to working with you and my distinguished colleague from Wyoming, Senator Simpson, on this important issue, and I ask that a summary of S. 1096 be printed in the hearing record at the conclusion of my remarks and those of Senator Simpson. Thank you.

Senator SARBANES. Thank you very much, Senator Bingaman. Senator Simpson?

STATEMENT OF HON. ALAN K. SIMPSON, U.S. SENATOR FROM WYOMING

Senator SIMPSON. Mr. Chairman, thank you very much, and my fine colleague from Kansas who came here when I did. It is good of you to give us this opportunity. You have been very gracious as Jeff and I have tried to bring this forward for examination by our colleagues, and we thank you for that.

This is where Senator Bingaman and I have picked up where Tim Wirth left off, and now he is in a position in the administration where he can be of great assistance in bringing this forward from simple legislation, or complex legislation if you wish, though I do not think it is, but he can bring this legislation forward and actually implement it with regard to his activities. So we, Senator Wirth and I, had introduced similar legislation which was a blueprint. Jeff and I feel this would serve as a focal point for U.S. policy on population assistance. We have to have this kind of policy to attempt to improve the quality of human life and halt the degradation of the environment caused by overpopulation of the planet.

Jeff has shared with you a statistic about how fast the population grows in a small increment. Hear this one: In the past 40 years the world's population doubled to almost 5.5 billion people. It is estimated if present trends continue this figure will increase to 11 billion by the year 2025, and 46 billion human beings by the year 2075, and 694 billion by the year 2150, if we do nothing. This latter figure for the year 2150 is the equivalent of 12,000 people for every square mile of land on the face of the Earth. Now that, my colleagues, is a truly sobering statistic.

I think this has to be one of the critical objectives of U.S. foreign policy. Unchecked population growth has and will continue to have very direct consequences on everything we do, on the economy, on standards of living, on global environment, for all we do or ever hope to do as a Nation. I know all that sounds a bit strange coming from a Senator who represents a State of 450,000 people, the land of high altitude and low multitude, as we call it, but the subject captured my attention many years ago as it did my father when he was a Member of the Senate.

I will tell you where it really came to me. As I log in my time on the Environment and Public Works Committee, I find that we seem to spend an inordinate amount of time talking about things

like methane gas in cows and what that will do to the universe, and what propellants in the bottom of shaving cream cans are going to do to the Earth. And nobody is paying any attention to the basic issue of how many footprints will fit on the face of the Earth. That is the real issue. How can we sustain a population of billions of people without totally trashing and destroying the environment of the Earth?

Perhaps in our travels when some of you visit the ruins of Tikal in Guatemala and other noble historical sites of once-civilized greatness try to determine how these magnificent civilizations ended. It is really very simple. In a patriarchal society the food gatherer and the hunter had to take care of the basic needs of food and shelter for his family, and did so while killing the last bird, catching the last fish, spearing the last animal, and burning the last stick of wood. In this way, many civilizations were destroyed and all of them ended tragically.

I know we all have a propensity to be dramatic and to get a little hyped up. I am very good at that, too. We often do that in this place. But no ecosystem can withstand that crush of impact of so many human beings, each one of them seeking shelter, nurture, care, and food.

So I am very heartened by this administration's renewed commitment and I trust that we can move forward on this important issue. I am ready to work toward that goal. I must say I have felt somewhat limited in the past years of my own party's administration and my own party's President because I was in the leadership capacity, and I did not always feel it appropriate to challenge some of the things those past administrations had proposed.

The political climate has changed now. Nothing overly critical of the past, mind you, but I am much more comfortable now in tackling this important issue, and I look forward to working with Senator Bingaman. We are ready to mold this bill into something that can achieve the support of a majority of the Members. We can work with the House. We are ready. Connie Morella, Tony Beilenson, we look forward to working with anyone who wishes to come forward here to craft legislation that will honestly make a difference in terms of how the human race manages its own population and the environment.

I thank you very much for your courtesy.

[The prepared statement of Senator Simpson and Summary of S. 1096, the International Population Stabilization and Reproductive Health Act, follow:]

PREPARED STATEMENT OF SENATOR ALAN K. SIMPSON

On June 10, 1993, I joined with my friend and colleague Senator Jeff Bingaman (D-NM) in introducing the "International Population Stabilization and Reproductive Health Act." During the 102nd Congress, Senator Tim Wirth and I introduced similar legislation which we believed was important to layout the blueprint to build upon during the 103rd Congress. Senator Wirth's commitment to population stabilization runs strong and deep, as evidenced by his new position as the top State Department official for population issues, and I want to commend him on this achievement. My colleague from New Mexico has risen superbly to the occasion to take over where Senator Wirth left off. He shares the same concerns and commitment to this crucial global issue as I do and I am pleased to be working in a bipartisan fashion with him so we can move forward with effective public policy on an issue that affects everyone in some way worldwide.

Moreover, the political climate has changed with President Clinton's announcement last year that the United States will resume funding for the U.N. population fund after a 7-year suspension, and he has mandated a reorganization of the State Department to reflect the greater priority we are giving to population as a major international issue. These are steps in the right direction; however, much more needs to be done to address this important issue of population stabilization. The legislation we introduced last year will serve as the focal point for U.S. policy on population assistance to foreign governments and private organizations working to improve the quality of human life and halt the degradation of the environment caused by overpopulation of this planet.

Of all the challenges facing us in this country and around the world, none compares to that of increasing population growth. All of our efforts to protect the environment and to promote economic development around the world are compromised by the staggering rate of growth in our world's population. There are currently 5.4 billion people on the Earth. In 1950, there were only 2.5 billion. If current birth and death rates continue, the world's population will double again in just 40 years. Despite some progress in reducing fertility rates, birthrates in developing countries are declining too slowly to prevent a cataclysmic near tripling of the human race before stabilization can occur.

It does indeed seem frivolous to me that we worry so much about bovine expulsions of methane gas and fertilizer contents when we have not even begun to consider the far more urgent and fundamental problem of how many footprints this Earth can accommodate. Every year over 95 million people—about the population of the entire country of Mexico—are added to the world's population. Every month the equivalent of another Los Angeles is added.

I have always been concerned about the environmental impact on this planet from the continued growth in population. However, there are many pressing reasons beyond a concern for the environment for the United States to take a renewed interest in global population issues. Unchecked population growth has and will continue to have direct consequences for the global economy and the international standards of living. Rapid population growth impedes worldwide economic progress by keeping people in many countries too poor to buy more than basic necessities. For example, 95 percent of the world population growth is taking place in the less-developed countries of Africa, Asia and Latin America where it aggravates widespread poverty as well as rapid environmental degradation.

There is a real need throughout much of the developing world for access to family planning services, especially to safe abortions. Women in these countries are desperately seeking ways to take control of their reproductive lives and cannot do so because there is a severe lack of access to such services. Currently, about 375 million married women in developing countries are using family planning, but at least 120 million more—1 in 5 outside of China—are not using family planning even though they may want to avoid becoming pregnant. The World Fertility Study shows that the growing use of effective family planning methods is a major reason that fertility rate declines have been so rapid in the past several years for some developing countries. We need to ensure that couples and individuals have the ability to exercise their right and choice to determine freely and responsibly the size of their families by promoting access to the full range of quality family planning services and also to reproductive health care in general.

In addition, any comprehensive family planning initiative must include access to primary health care with an emphasis on child survival to reduce infant mortality. In many developing countries, parents have a perception that many of their children will not survive beyond their first birthdays. If these parents' fears are allayed, they will not feel pressure to have more children than they actually desire in order to insure against the possible loss of one or more of their children before adulthood.

Finally, women across the world should be empowered so that they have the opportunity to become equal partners with men in the development of their societies. In societies in which women are accepted in the work force and alternatives to child-bearing exist, it has been shown that fertility rates usually decline. This has been the case in industrialized countries, and in countries such as Brazil, Mexico, Thailand and South Korea. In addition, in societies that deny women equal rights, women are also often denied an equal say in family decisions concerning family planning, pregnancy and child-raising. Since women bear the primary burden of pregnancy and child-rearing, it is reasonable to believe that if given a fuller choice, some women might choose to delay or avoid future pregnancies. In this way promoting educational opportunities for women and improving the status and rights of women could lead to a reduction in fertility.

This is why for all of these pressing reasons, I joined last year with my friend and colleague from New Mexico, Senator Bingaman, in introducing the "Inter-

national Population Stabilization and Reproductive Health Act." It is our aim to call attention to global population stabilization, to give it focus and to make it a vital part of U.S. foreign aid and development assistance programs. This legislation calls for the United States to resume its position of moral leadership in global efforts to achieve responsible and sustainable population levels, and to back that leadership up with specific commitments to population planning activities.

I trust that with the Administration's renewed commitment to population stabilization, we can move forward on this important issue that is so very vital to every human being on this planet. We are ready in the Senate to mold this bill into something that can achieve the support of a majority of Members. We need to begin to make much-needed policy changes in international population stabilization, and the United States needs to take this lead to ensure that these new policy developments are recognized worldwide. This one is long overdue.

SENATORS JEFF BINGAMAN AND ALAN SIMPSON SUMMARY OF S. 1096: INTERNATIONAL POPULATION STABILIZATION AND REPRODUCTIVE HEALTH ACT

The "International Population Stabilization and Reproductive Health Act" lays the foundation for focussing U.S. foreign policy on a coordinated strategy that will: help achieve world population stabilization; encourage global economic development and self-determination; and improve the health and well-being of women and their children.

S. 1096 recognizes that worldwide efforts to alleviate poverty, stabilize population, and secure the environment have been significantly undermined by the lack of attention to women's reproductive health and the role of women in the economic development of their families, their communities, and their countries.

1. POLICY AND PURPOSE

To help stabilize the world's population, improve the health and well-being of families, provide greater self-determination for women, and protect the global environment, the Act states that key objectives of U.S. foreign policy will be to:

- assist in the worldwide effort to achieve universal access to family planning;
- promote access to quality reproductive health care for women and primary health care for their children; and
- support the global expansion of basic literacy, education, and economic development opportunities for women.

To promote these objectives, the Act sets expenditure targets for population assistance:

- Global Target (total of domestic and international sources): \$11 ,000,000,000 by the year 2000;
- U.S. Target: \$1,400,000,000 by the year 2000.
- In addition, new funding authorization levels are set for development and economic assistance programs and maternal and child health programs.

2. U.S. POPULATION ASSISTANCE PROGRAMS

U.S. population assistance will be available to international governments; multi-lateral organizations, including the United Nations and the UN Population Fund; and nongovernmental organizations.

Assistance is authorized to support:

- affordable, culturally-competent, and voluntary family planning and reproductive health services and educational outreach efforts, particularly those designed, monitored, and evaluated by women and men from the local community;
- research on new, improved, and lower-cost fertility regulation options and related disease control for women and men, particularly those emphasizing the individual user's perspective and goals;
- research on programs to provide effective family planning education and evaluation that is culturally and gender competent in meeting the individual user's goals and programs; and
- efforts to create greater awareness worldwide on reproductive health issues and the consequences of continued world population growth.

Some conditions will be imposed on eligibility for support:

- the largest share of U.S. population assistance will be made available through nongovernmental organizations;
- assistance priority will be given to countries that account for a significant portion of the world's population growth; have significant unmet needs in the

delivery of family planning services; or are committed to population stabilization through the expansion of reproductive choice;

- programs receiving support cannot deny services based on an individual's ability to pay;
- no U.S. funds may be used to coerce any person to accept any method of fertility regulation or undergo contraceptive sterilization or involuntary abortion.

3. ECONOMIC AND SOCIAL DEVELOPMENT ASSISTANCE

U.S. development assistance will be available to help improve educational and economic opportunities for girls and women and improve the health status of women and their children.

- **Education:** Priority assistance will be available to countries that have adopted Year 2000 goals and strategies aimed at closing the literacy and basic education gaps between the nation's men and women.
- **Economic Productivity:** Priority assistance will be available to governments and nongovernmental organizations for programs that help women increase their productivity through vocational training and access to new technologies, extension services, credit programs, and child care.
- **Women's Health:** Priority assistance will also be available for programs that increase the access of girls and women to comprehensive reproductive health care services.
- **Children's Health:** Priority assistance will be available to nongovernmental programs that are aimed at reducing malnutrition, increasing immunization rates, and reducing the number of childhood deaths resulting from diarrheal diseases and respiratory infections.

The Act also establishes the Safe Motherhood Initiative, which is specifically intended to help girls and women gain access to comprehensive reproductive health care, including:

- prenatal care and high-risk screening;
- supplemental food programs for pregnant and nursing women;
- prevention and treatment of sexually-transmitted diseases, including AIDS; and
- midwifery and traditional birth attendants.

4. REPORTS

• **Annual Report:** To assess progress toward the Act's objectives and expenditure targets, an annual report will be submitted to the Congress on world progress toward population stabilization and universal reproductive choice. The report will estimate international population assistance by government, donor agencies, and private sector entities; and analyze population trends by country and region.

• **Expenditure Target Report:** To determine expenditure targets for economic and social development activities, the President will prepare a report which:

- estimates the resources needed, in total and by entity, to achieve the education, productivity, and health initiatives described above;
- identifies legal, social, and economic barriers to women's self-determination and to improvements in the economic productivity of women;
- describes existing initiatives aimed at increasing the women's access to education, credit, and child care and new technologies for development; and
- describes the causes of mortality and morbidity among women of childbearing age around the world and identifies the actions and resources need to reduce such mortality and morbidity.

• **Report on Discrimination:** Each annual country human rights report will include information on patterns within a country of discrimination against women in inheritance laws, property rights, family law, and access to credit, technology, employment, education, and vocational training.

5. AUTHORIZATION OF APPROPRIATIONS

For section 104(g)(1) of the Foreign Assistance Act of 1961:

- \$725 million is authorized for fiscal year 1994; \$800 million for fy 1995.

For activities under development and economic assistance:

- \$350 million of the amount reserved for education for fy 1994 and fy 1995 will support efforts to equalize male/female enrollment in primary and secondary schools;
- \$405 million for fy 1994 and \$490 million for fy 1995 will be available through the Child Survival Fund for child survival activities, including immunization and vaccines initiatives;

- \$100 million is authorized for fy 1994 and fy 1995 for the Safe Motherhood Initiative.

In addition, the Act authorizes the AIDS Prevention and Control Fund for research, treatment, and prevention of AIDS. For fy 1994, \$100 million is authorized for the Fund; \$165 million is authorized for fy 1995. Similar funding has been appropriated annually by the Congress since 1986.

Senator SARBANES. Thank you gentlemen, both of you, for your very thoughtful statements. I have no questions.

Senator Kassebaum?

Senator KASSEBAUM. Really, neither do I, Mr. Chairman, other than to say I think as both of you know I have been a long-time supporter of population assistance programs but I have also been a long-time opponent of earmarking in the Foreign Aid Program. And of course, as much as I think this is a focus in a very important direction, I feel I would be less than honest if I did not say I am disappointed to see more earmarks surface as we are trying with foreign aid reform to reduce earmarks.

Maybe we can work together to get around earmarking and still address the concerns which I think are very wisely stated by both of you.

Senator SIMPSON. I certainly look forward to that.

Senator SARBANES. Thank you. Thank you gentlemen, very much. We look forward to working with you on this very important issue.

Senator BINGAMAN. Thank you very much.

Senator SIMPSON. Thank you very much, both of you.

Senator SARBANES. We will now proceed with our first panel which will address the issues of sustainable development and humanitarian assistance, titles I and IV of the bill, respectively. The panel consists of Carol Capps, John Sewell, Richard Bissell, and Andrew Natsios. Ladies and gentlemen, if you would come forward and take your seats we would appreciate it.

These are the areas of the submitted legislation over which the Agency for International Development will have primary jurisdiction and which the private voluntary organizations and nongovernmental organizations, the NGO's, have been most intimately involved.

I want to note for the record that the InterAction coalition, which is being represented here this morning by Carol Capps, has done an excellent job of pulling together broad and diverse groups of organizations to make joint, coordinated, and indeed very detailed recommendations about the bill. In fact, the document they prepared on the administration's November 22 discussion draft was really, I think, a very constructive contribution. It was over 50 pages long. It was remarkable not just for the attention to the detail but for the effort that it must have taken to get nearly 40 organizations to participate and reach a general consensus. Many of those recommendations were, in fact, adopted in the administration's final proposal. Others may, in fact, be adopted here. So I want to commend the InterAction coalition for its efforts.

Alongside Ms. Capps we have John Sewell, president of the Overseas Development Council, who has been extensively involved in reviewing the administration's proposal and coordinating discussions of it; Richard Bissell, a former Assistant Administrator at AID, and now visiting fellow at the Overseas Development Council,

whose testimony we had the benefit of last year; and Andrew Natsios, former Assistant AID Administrator for Food and Humanitarian Assistance, and currently the executive director of World Vision.

Now, we will include your full statements in the record. We would hope you could summarize them in opening statements of 5 to 8 minutes. Also, we appreciate that a lot of work has gone into preparing for this occasion, and we certainly want to hear you out.

With that, we will start with Ms. Capps and just move right straight across the panel to Messrs. Sewell, Bissell, and Natsios. We would be happy to hear from you, Carol.

STATEMENT OF CAROL CAPPS, DIRECTOR, OFFICE ON DEVELOPMENT POLICY, CHURCH WORLD SERVICE/LUTHERAN WORLD RELIEF, WASHINGTON, DC

Ms. CAPPS. Thank you, Mr. Chairman, for your comments. Our coalition is indeed pleased that some of our recommendations, especially those related to title I, sustainable development, were incorporated in the administration's draft bill that has come to the Hill. We were also pleased that the bill does prohibit transfers from development assistance to other accounts and we were pleased that separate authorization of military-related funds is required.

There are still a number of areas, however, where we feel the aid reform draft needs improvement. We agree wholeheartedly that AID's central mission should be to promote sustainable development through a process that is participatory and equitable, and that recognizes and supports the important role of women in their communities and nations as a cross-cutting issue. We do believe, however, that the language relating to women's roles needs to be strengthened, and in particular we propose that language recognizing women's roles in development and calling for women's empowerment be added in the opening policy language to the bill.

More basic still from our perspective, a major flaw of H.R. 3765 is its failure to link a sustainable development objective to other chapters and titles of the bill, for example, those relating to Eastern Europe and the former Soviet Union. We hope the committee will find a way to weave the sustainable development theme more fully throughout the bill. Unless other programs are also required to meet sustainable development criteria, or at the very least not undermine them, U.S. assistance could work at cross-purposes and fall far short of promoting sustainable development.

Similarly, we believe environmental impact assessment should be required for all titles, not just title I, with the exception of title IV, of course, disaster assistance, which requires a rapid response.

In this connection, we believe some way needs to be found, perhaps through an interagency coordinating mechanism, to ensure that AID's voice is heard in formulating and monitoring all U.S. foreign assistance policy, especially that relating to the international financial institutions. Our overseas partners constantly ask us to do what we can through the U.S. voice in those institutions to challenge and modify structural adjustment policies so that they will be more propoor rather than serve to widen the gap between rich and poor as they currently so often do. We believe AID's

strong sustainable development perspective is essential in U.S. policy debates on the international financial institutions.

We also encourage you to define somewhat more specifically the types of activities that would comprise the sustainable development agenda such as primary health care, education, food security, child survival. If you do so, that would make your monitoring and oversight and ours much easier. And we propose amendment of the microenterprise section to create a centrally managed fund that would channel more money through PVO's and NGO's as a way of increasing access of poor people, especially women, and grassroots groups to microenterprise resources. We also join a number of other voices in urging separate authorization of the Development Fund for Africa.

I would now like to comment a bit on title II and title IV. We view those as closely linked. But as currently written, title II is primarily a depository for the Eastern Europe and former Soviet Union programs and has very little to say about another extremely important group of countries in transition; namely, countries emerging from conflict, many of whose needs differ widely from those in the former Communist countries.

We have proposed in our earlier recommendations specific language concerning the types of activities that respond to needs in countries emerging from conflict. For example, demining, demobilizing and reintegrating ex-combatants into civil society, short-term public works initiatives to generate employment and rebuild infrastructure, assistance for judicial reform and human rights monitoring, organizing and monitoring electoral processes, strengthening indigenous nongovernmental and civic organizations. We strongly urge that this expanded language on responding to needs in countries emerging from conflict be added to title II.

Also, we are somewhat puzzled by the placement of section 4202 reconstruction, in title IV, as it seems to us it might more logically be placed in title II. We understand this provision refers to AID's program for countries in transition, whose functions are barely mentioned in the bill. The activities I have just described as needed in countries emerging from conflict are those that seem appropriate to the functions of this office of AID. We therefore propose that our suggested language be used to expand section 4202 and, as noted, that function be moved to title II.

We have several additional comments relating to Title IV: Humanitarian Assistance. We would like to see a statement of principles included, the principle of impartiality in dispensing such aid, for instance. And we would also like to see greater recognition of the important role of private voluntary organizations in implementing disaster assistance programs. Also, on the basis of the maxim that if it is not broken do not fix it, we would hope to see current law, the Migration and Refugee Assistance Act of 1962, maintained, not repealed, and a brief statement of findings replace sections 4101 and 4102 in the administration's proposed draft on refugees.

In closing, I would like to highlight two additional important issues that speakers on a later panel will address, human rights and demilitarization. Our advocacy subcommittee has reviewed the testimony of the Coalition on Human Rights and we endorse those

recommendations. We also draw your attention to the Code of Conduct on Arms Sales that will be discussed by a future speaker. We do believe that finding ways of restraining weapons sales and weapons transfers, as well as military assistance to repressive regimes, is essential and that failure to do so jeopardizes both democracy building and sustainable development initiatives.

Thank you, Mr. Chairman. We stand ready to assist in any way we can in crafting foreign aid reform legislation that can gain widespread support from our organizations and from our constituencies. [The prepared statement of Ms. Capps follows:]

PREPARED STATEMENT OF MS. CAPPS

Mr. Chairman and members of the Committee, thank you for asking me here to represent InterAction. I am Director of the Office of Development Policy for Church World Service and Lutheran World Relief, but today I am wearing the hat of Chairperson of the Advocacy Subcommittee of InterAction. InterAction is a coalition of 153 U.S.-based international relief, development, environmental, population, refugee, and advocacy agencies dedicated to humanitarian assistance and sustainable development, and the two agencies I work for are members of this coalition.

InterAction's 153 members represent millions of Americans who show their support for international sustainable development and humanitarian assistance activities in a direct and compelling manner: they donate their hard-earned dollars to support our organizations and they volunteer their time and talents. This is a tribute to the generosity of Americans, and their recognition of the continuing importance of the work done by our members around the world.

We do not share the view of some who have suggested that Americans are in an isolationist mood. In fact, we have seen recent polling data revealing that Americans—by a margin of 4 to 1—understand that we must remain engaged with the rest of the world.

Foreign assistance reform in the Post Cold War era is necessary and important. Whether the issue is urgent humanitarian response to victims of disaster; crises of refugees and displaced people; continuing our investments in child survival, women's health, education, microenterprise credit, nutrition programs, sustainable agriculture, and other development programs; or responding to the global agenda of environmental and population challenges, the United States has an unassailable interest in working towards a stable, sustainable world of healthy, well-educated people, living in democratic societies, fully able to engage in the "pursuit of happiness."

InterAction endorsed the need for comprehensive foreign assistance reform in December 1992 when we stated that "a rewrite is needed to restore the credibility of U.S. bilateral assistance by giving a renewed sense of mission to U.S. development efforts." The enactment of new foreign assistance legislation will provide a clear, focussed mission for the Agency for International Development: the promotion of sustainable development and provision of humanitarian assistance in response to disasters. This twin focus was lost as foreign assistance legislation became increasingly encumbered. This clarified mission will help the present AID Administrator and his strong team in the critical effort to reinvigorate the demoralized personnel of AID.

Beginning in November 1993, InterAction coordinated the preparation of a series of comments from nongovernmental organizations on the Administration's foreign aid reform discussion draft of November 22, 1993. Some of the groups are members of our coalition, others are not; all participated in a process led by InterAction's Advocacy Subcommittee which produced a lengthy and detailed review document.

Our final document was provided to administration officials, your staff, and many others on Capitol Hill. The Clinton Administration proved itself open to our comments; many were incorporated into the final text of H.R. 3765, particularly our comments related to Title I. We appreciate that consideration, and the efforts of the administration to keep us fully informed during the process. We believe the proposed legislation provides a solid, constructive foundation for genuine foreign aid reform.

The remainder of my statement is devoted to suggestions for improvements in H.R. 3765.

H.R. 3765

We are pleased by improvements already made in Title I, Sustainable Development, since the November draft, especially the decision to protect funds allocated for Title I from transfers to other accounts. We appreciate the recognition that sus-

tainable development programs must address not only population growth and environmental degradation but also hunger and poverty. We are pleased to see language recognizing the central role that NGOs play in the design and implementation of sustainable development programs. We are delighted that the concepts of participation and sustainability originally enshrined in the Development Fund for Africa will be integrated throughout the Sustainable Development section. We appreciate the strong language relating to PVO's in H.R. 3765, particularly in Section 1103, "Voluntary Cooperation in Development."

However, we believe that further improvements in the legislation are warranted, and we offer the following recommendations:

Ensure That Sustainable Development Goals and Standards Are Consistent Throughout the Legislation

We believe that sustainable development should be a unifying theme or objective of the entire bill, not limited to Title I. Our December critique proposes specific language, section by section, on how to weave the sustainable development objectives into the programs covered under other titles. That language has not been incorporated into the other titles. Unless other programs are also required to meet sustainable development criteria, or at the very least not undermine them, U.S. assistance could work at cross purposes and the sustainable development approach articulated by the Agency for International Development could be thwarted by other initiatives.

Similarly, we urge that the evaluation and accountability procedures for programs in Title I be expanded to cover the entire bill, including environmental impact assessments except for disaster assistance. This exemption is based on the need for urgent action in the case of emergencies.

Add Language in the Spirit of the Percy Amendment to the Overall Statement of Policy

Few would disagree that development strategies must acknowledge and enhance the critical contributions that women make to their national economies. For this reason, we appreciate the fact that this issue is recognized as a cross-cutting component of the sustainable development section of the bill. However, are concerned that women's language transcend the bill and be strong and definitive.

Twenty years ago Congress, with the leadership of Senator Charles Percy, passed what has become known as the "Percy Amendment", mandating that special attention be given to development projects aimed at better integrating women into national economies, thus improving their status and enhancing the total development program. A recent GAO review of efforts made by AID and the State Department to meet these mandates concluded that AID has only made marginal progress toward analyzing and incorporating gender in its policies and programs, and that the State Department, for the most part, has failed to provide strong leadership in promoting gender issues at the United Nations and in other international fora.

We ask that the Committee incorporate a strong provision, in the spirit of the Percy Amendment, in the overall policy statement of the foreign aid reform bill. This policy language should apply to more than just Title I, but to other areas of the bill such as the language authorizing programs in the former Soviet Union and Eastern Europe. For this purpose we would submit the following for consideration in Section 3, Statement of Policy:

"A central goal of U.S. international assistance is the economic, political and social empowerment of women. Recognizing women's contributions and incorporating women into all aspects of the development process is essential to the successful achievement of global development, peace and prosperity."

Add Specificity to Sustainable Development Programs

In our comments, we suggested that Title I also highlight the specific activities, such as primary health care, education, nutrition, food security, and sustainable agriculture, that would be considered part of a sustainable development agenda. The draft, while improved, requires additional descriptive information concerning the types of activities that would be undertaken to promote sustainable development. As Members of this Committee have rightly pointed out, "sustainable development" is a difficult term to understand. Further specificity would do much to help Members of Congress and the American people understand why these programs are important.

We urge that the concept of equitable distribution of assets—land and income to poor people, and especially women—be more clearly stated.

Strengthen the Language Relating to the IFT's

The international financial institutions (IFIs) have been reluctant to recognize that some of their programs have had a deleterious effect on people in many countries undergoing classical economic reform. Moreover, despite much dialogue by Congress, other governments and the NGO community, they have been very slow to improve efforts at consultation and participation at the local level and reluctant to improve transparency in their programming.

We urge your Committee to strengthen the IFI language to further the message to these institutions that they must continue to reformulate their programs so that they foster sustainable development. We suggest taking another look at the language the NGO coalition proposed for this section as an alternative.

Authorize a Separate Development Fund for Africa

InterAction supports a separate authorization for the DFA. The severe poverty in many African countries requires a long-term commitment dedicated to the principles of sustainable development. Historically, the United States has demonstrated this commitment to Africa, and our community believes this should continue to be a cornerstone of our foreign aid program. In addition, we recommend minor changes to language to recognize the needs of countries that are recovering from conflict which resulted in massive population displacement and refugee flight.

We also suggest that consideration be given to including hortatory language on Central America and Asia so that the sustainable development needs of those regions are also specifically recognized in the bill.

Incorporate a Fund for Microenterprise Development

We commend the leadership of AID for featuring microenterprise prominently in its new strategic direction for economic growth. In order for this valuable initiative to succeed, we recommend the adoption of language establishing a centrally managed microenterprise development fund within AID. In its most recent report to Congress, AID reported that it made 67,000 loans in FY91 with a budget of \$110 million. 87 percent of the loan capital was allocated to loans over \$1,250, or five times the average loan size of programs which focus on poor women. We would like to dramatically improve those numbers. Grassroots implementing agencies estimate that they could make over 1 million loans reaching the poor and women with a \$100 million fund.

The microenterprise provisions which we recommend including in the bill were drafted last year in consultation with 25 of the leading PVOs in the field of microenterprise who collectively reach over 4 million borrowers. These implementing agencies have recommended the creation of a central fund as a means to help AID channel its resources to poor people, especially women, more effectively through grassroots organizations. The fund would also increase the access of grassroots groups to training and to best practice in this rapidly growing field.

TITLE II—BUILDING DEMOCRACY

Distinguish Between Democratizing Countries and Those Emerging From Conflict

Title II, Building Democracy, fails to distinguish clearly between two very different types of situations: countries making the transition from communist societies to democracies and free market economies, and countries emerging from armed conflict. Title II fails to emphasize, in particular, the needs of countries emerging from conflict; these needs include de-mining and the reintegration of the military into peaceful society.

Bridge the Gap Between Disaster Assistance and Sustainable Development in the CIT

The language in Section 4202 relating to reconstruction does not adequately define the meaning of "reconstruction." We have taken it to mean funding for the Countries in Transition (CIT) program. InterAction recommends that language specifying some of the kinds of activities that would fall into this initiative and relating the program to both disaster assistance and sustainable development. Since this initiative is designed to bridge the gap which currently exist between these two areas, the authorizing legislation should recognize those linkages. In addition, the language authorizing the expenditure of funds for reconstruction may be more appropriate if placed in Title II. This would help to ensure that scarce funds for emergencies would not be diverted to the Transition initiative. Language prohibiting the military from receiving funds under this Initiative will ensure that resources would be directed toward strengthening civil authority in countries in transition.

TITLE IV—PROVIDING HUMANITARIAN ASSISTANCE

Maintain Current Law Regarding Refugee Assistance

With regard to refugee assistance, sections 4101 and 4102 authorize activities and funding for assistance programs for refugees and displaced persons outside the United States, including those who will be admitted to the U.S.

As you know, InterAction and its member agencies have long supported such programs and continue to view them as essential to the humanitarian and foreign policy interests of the United States. We are concerned, however, that in repealing the Migration and Refugee Assistance Act of 1962 and replacing it with a new authorization in this bill, you are fixing something that is not broken. While we support the concept of overhauling the Foreign Assistance Act of 1961, we believe that the authorization of refugee assistance programs requires no change from the status quo. The long-standing and effective programs implemented by NGOs and the State Department's Bureau for Refugee Programs would not be served by a change in this regard.

The Bureau for Refugee Programs has provided excellent oversight and administration of these activities, ensuring that the human rights focus of refugee assistance is maintained. For that reason, we urge you to refrain from repealing the 1962 Act and to remove section 4102 from this bill. In addition, we suggest limiting section 4101 to a brief statement of findings regarding the continuing need for overseas refugee assistance. InterAction stands ready to work with you and your staff in the development of such language.

Strengthen the Language on the Role of PVOs in Humanitarian Assistance

Section 4001, the overall statement of Policy under Title IV should include explicit reference to the role of private voluntary organizations that implement many of the programs under this title. While PVOs are mentioned later under disaster assistance, the opening statement refers only to bilateral and multilateral programs. Section 4301, "Emergency Food Assistance" also fails to mention PVOs, although they in fact play a major, if not dominant role in this assistance. Millions of Americans donate private funds to PVOs to implement these humanitarian programs. Their generosity and efforts should be recognized more explicitly in this section.

Include a Statement of Humanitarian Principles to Govern Such Assistance

Additionally, Section 4001 should include a statement of humanitarian principles, such as the principle of impartiality, which would guide the allocation of humanitarian assistance funds and the implementation of humanitarian assistance programs.

OTHER ISSUES

Strengthen Congressional Oversight and Accountability

H.R. 3765 as currently drafted gives the administration too broad authority to transfer funds between accounts and to waive restrictions on aid for reasons of "national interest" or other purposes, making it difficult for Congress to hold the administration accountable to policy guidelines. Flexibility must be balanced with accountability. We highlight the following issues in particular:

1. We recommend that no transfers be allowed into military assistance, as consistent with current law.

2. We urge Congress to tighten the exemptions from restrictions on aid. For instance, we support the language of Section 7106 that permits aid through non-governmental organizations in countries to which aid is otherwise restricted. However, we believe both Sections 7109 and 7201 permit unwarranted exemptions from restrictions.

Section 7109 would allow government-to-government aid for several categories of development programs as well as for reconstruction. Section 7201 (a) and (c) further broaden the exemption authority by allowing exemption for "national interest" and "benefiting the needy." Exemptions should be allowed only for disaster and refugee/displaced persons assistance and through nongovernmental organizations, as provided in Section 7106 and Section 7201 (b), (d) and (e).

Create a Mechanism to Coordinate U.S. Agencies Working on Foreign Assistance Policy

H.R. 3765 expresses the importance of increasing the coordination of bilateral and multilateral aid, and it states that the programs and economic reforms of the International Financial Institutions should reinforce the goals of United States sustainable development programs. However, the bill is silent on how such coordination could be achieved. We recommend that a mechanism be included in the bill that would ensure a significant role for AID in an inter-agency coordinating process. AID

should have a role in formulating and monitoring U.S. policy toward the IFI's and in other areas touched upon in the legislation to ensure that sustainable development policy is not being undermined.

Include Language on U.S. Leadership in International Sustainable Development Goals

The NGO critique included language calling upon the United States to exercise leadership in developing international commitment and cooperation to work toward the sustainable development goals agreed upon in several international conferences during the 1990's. We urge that such language be included in the bill as a way to emphasize the global context of sustainable development efforts and highlight agreed-upon global goals by which to measure success in promoting sustainable development.

Ensure That AID Preserve Its Mandate Without Undue Interference From the Department of State

While we appreciate the positive working relationship between the Department of State and AID under the current administration, we continue to be concerned that, insofar as possible, legislation ensure that AID is able to focus on its long-term programs without undue interference from the political concerns of the Department of State. Legislation should give the AID Administrator clear control over the design, implementation, and allocations for sustainable development programs under Title I, and for humanitarian assistance under Title IV, as well as the chapters of Title II for which it is determined to be responsible. Section 8102, referring to the authority of the Secretary of State should be made consistent with current law.

Strengthen the Human Rights Provisions

Human rights are an essential component of an effective and just foreign assistance package. They are as central to building democracies and promoting broad based development as any other issue highlighted in the legislation. We support the recommendations of the Washington Coalition on Human Rights who have expertise in this area. One area of particular concern to our community is women's rights as human rights.

Restore the Debt-for-Development Language

The November 22 discussion draft included language in Section 7113 that authorized debt-for-development programs. The language has since been deleted from H.R. 3765. We believe that this important program should be authorized, and we support the language included in the November 22 draft.

We support the original title of this bill, the "Peace, Development, and Democracy Act of 1994."

Mr. Chairman, thank you again for this opportunity to comment on the foreign assistance reform legislation before you.

Senator SARBANES. Thank you very much for your very helpful statement. Next is John Sewell.

STATEMENT OF JOHN SEWELL, PRESIDENT, OVERSEAS DEVELOPMENT COUNCIL, WASHINGTON, DC

Mr. SEWELL. Thank you very much, Senator, for allowing me to speak. This is a real opportunity for me. And you have an opportunity, it seems to me, to look at this legislation which has finally arrived on your desk much later than expected. Much of what I am going to say is drawn from work at the Overseas Development Council, including, particularly, a series of alternative foreign aid budgets we have put out over the past 2 years. In addition, I have attached a statement outlining U.S. interests in the developing world which may help your deliberations. The views I express, however, are my own.

My written testimony covers seven points which I hope will be of some help as you look at the draft legislation. Let me make a few observations drawn from my testimony.

First, the legislation, as it now stands, is a very commendable effort to set out a framework for a post-cold war foreign policy for

this country. Therefore, it is a very useful opening to the debate on that subject which should now take place. It is not, however, primarily a bill about development cooperation, and does not adequately reflect American interest in promoting sustainable development.

I note in my testimony that poverty alleviation, which lies at the core of many of these issues, is severely underemphasized in the bill. And now, I see to my astonishment, that the word "development" itself has been removed from the title and replaced with "prosperity."

One of the main problems with the legislation is that it sets no priorities, either among the titles or within them. This is true of the sustainable development section which is very rich in insights about what has been learned about promoting sustainable development over the years, and in the democracy section, which is extraordinarily weak. It is very nonspecific on what one does to directly promote democracy. It assumes implicitly that a number of good things go together, including economic growth, exports, democracy, security, and so on and so forth, without ever testing those ideas. It is not very clear on what one does directly to support democracy through aid programs, and what one does indirectly, through openings of the international economic system, to support those democracies that have emerged in the last several years.

Priorities, and the role of foreign aid in meeting those priorities, really can only be deduced if the draft legislation is looked at in parallel with the President's fiscal year 1995 budget. The only conclusion has to be, and I say this quite regrettably, that it looks like business as usual.

Notwithstanding the commendable increases in support for environment and population, the priorities reflected in this budget—the first real Clinton budget—are largely unchanged from past years and past administrations. As far as I can figure out from the budget documents that were submitted over half of all the money in the categories of sustainable development, humanitarian assistance, peace, and democracy, go to the Middle East and the former Soviet Union. That is a priority, of course, which in the case of the Middle East has existed since the early 1980's.

It is very important, as we sit here in 1994, to be clear about priorities and to make sure that Congress and the administration are in broad agreement on them. There are three reasons for that. First, we are going to have to make linkages and tradeoffs across the various titles which concern our political interests, our interests in dealing with global issues, such as the environment, our economic interests in export promotion, and our very real interest in sustainable development.

Second, it is important to establish priorities because the business of development cooperation has changed dramatically since Congress last rewrote this legislation. The United States is no longer the largest aid donor; Japan is. There are now many more donors in the arena. Many countries do not need foreign aid anymore. And in the development field, policy and policy debate are dominated by the multilateral development institutions.

Finally, of course, as I do not have to tell anyone here, continued budget stringency means it is going to be necessary to maximize the use of our very scarce budgetary resources. Therefore, we should try and set out two or three priorities in the legislation, one of which is paralleled by the submissions in S. 1096 which you just talked about with the prior panelist. The draft legislation is particularly weak on two crucial issues: U.S. policy toward the Bretton Woods institutions—the bank, the fund, and the original development banks which now, as I said, do dominate the development debate; and second, on the question of who is in charge.

I gather Brian Atwood in his testimony has talked about integrating USAID into the State Department and the Secretary of State resuming his traditional role as the coordinator of U.S. foreign policy issues. But any observer of the role of the State Department over the last two or three decades, both in its ability to coordinate other Cabinet agencies and its willingness to do so, will question this conclusion.

It is extremely shortsighted to ignore the budget issue, even though the question of budget issues may not be within the committee's direct jurisdiction. This subcommittee and the Senate Foreign Relations Committee could play an extraordinarily important role in highlighting what is a growing paradox. Our main military security interests in the world, which clearly are peace in the Middle East and the transition of the former Soviet Union, are very important. But they can no longer be addressed by military instruments.

As a result, we are trying to fund our security interests out of an increasingly compressed nonmilitary national affairs budget, while making only very conservative reductions in the Defense budget itself. If that situation is allowed to continue, and we do not have a new framework to look at U.S. interests and balance off military and nonmilitary U.S. interests in the world, a number of our important interests in the post-cold war world are likely to be in jeopardy.

Thank you very much. I would be happy to answer your questions and provide any assistance to you and your colleagues.

[The prepared statement of Mr. Sewell follows:]

PREPARED STATEMENT OF MR. SEWELL

Thank you for inviting me to appear before the Senate Subcommittee on International Economic Policy, Trade, Oceans and Environment as you begin deliberations on "The Peace, Prosperity, and Democracy Act of 1994", the Administration's proposal for reform of the Foreign Assistance Act of 1961. We all agree that there is a clear and urgent need for comprehensive reform of the U.S. foreign assistance program. As they now exist, these programs do not effectively promote this country's international interests and do not respond to the long-term and short-term needs of the developing world. The central question therefore is the adequacy of the Administration's proposals.

In my testimony, I will attempt to address both the strengths and weaknesses of the proposed legislation. Much of my testimony is drawn from the work we have done at ODC in recent years, most notably the series of "alternative international affairs budgets". It also reflects the conclusions contained in "Reinventing Foreign Aid: White Paper on U.S. Development Cooperation in a New Democratic Era" produced by The Independent Group on the Future of U.S. Development Cooperation. The views laid out here however are my own and do not necessarily represent those of the Board, Council and staff of ODC. I have attached to my testimony a paper outlining American interests in the developing world which appeared in ODC's last alternative budget.

THE STRENGTHS OF "THE PEACE, PROSPERITY, AND DEMOCRACY ACT OF 1994"

Let me deal with the strengths of the legislation. *First*, the administration's proposed legislation is a commendable effort to revise the strategic framework for U.S. foreign policy for the post-Cold War world. It is important to underscore, therefore, that the legislation does not just deal with traditional programs of development cooperation. Rather it provides the beginnings of a comprehensive framework—covering development humanitarian programs, democracy, export promotion, and security—for American foreign policy in a world no longer dominated by Cold War rivalries. Its breadth and comprehensiveness is a very useful of opening a much needed debate on these issues.

Second, it recognizes that *development* has to underpin a good part of American foreign policy in the period ahead. The statement in Section 3 that "sustainable development is in the long-term interests of the United States" is particularly noteworthy. The proposed legislation, therefore, provides a real service in making clear that other important goals such as export promotion or promoting peace should be kept separate from development cooperation. The Administration's agreement to protect the sustainable development initiatives in the legislation is extremely important.

Third, the proposed legislation is consistent with a long standing goal of this committee—to establish an efficient, streamlined development program that will maximize the impact of the scarce resources available for these priorities.

Finally, the administration obviously seeks through this legislation to create a new consensus with the Congress, and presumably with the public on the central issues of American foreign policy and on programs designed to promote U.S. interests abroad. For that reason, the deliberations of this Committee, and its counterpart in the Senate are particularly important. It is in this spirit that I will focus the remainder of my remarks on the weaknesses of the proposed legislation, precisely because I believe that this draft requires considerable improvement before it can serve as a comprehensive blueprint for a post-Cold War foreign policy.

THE WEAKNESSES OF "THE PEACE, PROSPERITY, AND DEMOCRACY ACT OF 1994"

First, the draft as it is written is all things to all people. There are no priorities established either between the various Titles, or in most cases within the separate sections. In addition, there currently is no unifying theme or clearly articulated statement regarding how foreign assistance functions in relation to overall foreign policy objectives.

It is absolutely crucial, therefore, that the opening policy statement clearly articulates U.S. international priorities, and particularly the role of U.S. foreign assistance in promoting those priorities. The priorities need to be clearly articulated by the Administration, and agreed upon with the Congress. Some can probably be written into the legislation, or articulated in other policy statements.

For instance, there is no explicit statement that the transitions in the former Soviet Union and Eastern Europe and peace in the Middle East are clear priorities for American foreign policy. As a result, Title II—Building Democracy—and Title III—Promoting Peace—are essentially euphemisms for these priorities which we know will continue to claim the lion's share of the international affairs budget. (A quick glance at the Administration's FY 1995 budget shows that well over half of the funds requested for building democracy, promoting sustainable development, promoting peace, and providing humanitarian assistance will be allocated to the Middle East or the former Soviet Union.)

Clarity here is critical because ultimately budgetary resources will be allocated for each of the major Titles. That process of allocation will in itself set priorities as it does in the FY 1995 budget. But clarity also is important to judge the success of programs. Budget resources may be important to promote goals with direct pay off to the United States—peace in the Middle East, financing the transition in the former Soviet Union, or expanding American exports. But these are not the same type of goals and should not require the same kind of long term concessional finance as does supporting sustainable development or meeting humanitarian needs. The Committee has a real opportunity in considering the draft legislation to clarify U.S. objectives, to assess budget priorities, and to end the confusion between programs and budgets designed to meet important security needs, and those designed to address longer term development goals.

Second, while the objectives and types of assistance set out under each chapter are by and large unexceptionable, they provide no guidelines for setting priorities, particularly when it is clear that budget resources, especially for sustainable development, will be severely constrained. It is important, therefore, that the bilateral programs focus on a selected number of critical goals which build on the strengths of

the American public and private sectors, and where U.S. leadership can have a major, visible impact in a measurable time frame. Their absence from the draft, or from the statements of Administration officials discussing the legislation is particularly striking, given the fact that there is a number of such proposals suggested by experts (Some have been set out in ODC's "alternative budgets".)

Let me suggest two examples. One such critical goal could be American leadership in an international effort to complete the "children's health revolution" by eliminating the four major diseases for which vaccines are available (measles, tetanus, whooping cough, and polio); eliminating Vitamin A deficiency, the major cause of blindness, and iodine deficiency, the largest cause of preventable mental retardation; and making oral rehydration therapy universally available in order to prevent simple diarrhea from remaining the biggest killer of children. A second could be to make family planning services available to all women of child-bearing age both in order to slow population growth and, equally importantly, to give women a measurable degree of control over their own lives. Both of these goals are doable at an affordable cost if the United States were to provide leadership.

Third, the use of functional categories to organize the legislation is an advance in that it makes clear the overall emphases of U.S. foreign policy. But it presents two unresolved problems. First, it will not be easy to use functional objectives to define measurable success or failure of foreign assistance programs without the addition of the kind of specific goals discussed below. How will we know when the United States is "secure" or when development has become "sustainable"? For a goal such as the promotion of democracy, results have to be judged on a long-term basis, and can be affected by a variety of short-term external factors that do not reflect overall program effectiveness. Clarifying this issue is particularly important if Congress is going to grant the administration the degree of flexibility it desires and which on efficiency grounds may be very important.

Similarly, it is unclear why certain programs are inserted under particular functional categories. For example, should funding for the former Soviet Union and Eastern Europe be inserted under Title II—Building Democracy—because that is the political objective of the program? Or should the funding be inserted under Title I—Sustainable Development—because the assistance is carried out through sustainable development programs administered by USAID?

Fourth, the legislation fails to recognize the changes that have taken place in development cooperation since the legislation was last reformed. There are now many more aid donors, and the United States is no longer the major aid provider. Promoting sustainable development, addressing global problems and humanitarian challenges, and promoting peace and democracy demand resources and priority far beyond the scope of bilateral programs.

This is an additional reason why the new legislation needs to articulate the role and priorities of the U.S. bilateral program, and the relationship of USAID to the multilateral donor community and other bilateral donors. During a time of domestic budgetary austerity, it is absolutely crucial that the United States identifies its comparative advantage as an aid donor, concentrates its resources in several well-defined areas, and organizes its efforts to leverage other bilateral and multilateral resources to address issues of common concern.

This also means that the section on the international financial institutions is of particular importance. That section (Section 1301) as now written is wholly inadequate. Both bilateral and multilateral institutions now are crucial instruments of development cooperation, and U.S. policies toward both need to be coordinated. It is clear, for instance, that the role of the IBRD and the IMF in facilitating the transition in the Soviet Union is very important. The legislation should be much more specific about the "mix" of U.S. development assistance, addressing not only the balance between bilateral and multilateral aid, but also the comparative strengths and weaknesses of the major international institutions—the IMF, the World Bank, and the regional development banks, and also the UN development programs.

Fifth, while the draft contains a commendable emphasis on sustainable development, it fails to clearly identify poverty alleviation as a central goal of U.S. foreign assistance policies. There is now a consensus that promoting sustainable development requires focusing on the interlinked goals of poverty alleviation, economic growth, and environmental protection, joined to the values of human rights and democracy. Alleviation of poverty is fundamental to the promotion of sustainable development and democracy, and it is very important to enhancing security and promoting American economic interests. Congress has insisted on priority to poverty issues when it rewrote the legislation in 1973, and reiterated that priority more recently in the Hamilton-Gilman Task Force report. The language in the draft has improved since the "discussion draft" that circulated several weeks ago, but it can be improved in the proposed legislation.

Sixth, the proposed legislation is weak on the specifics of promoting democracy. While the elements of sustainable development are now increasingly understood, promoting democracy in its broader dimensions is not. The draft legislation is particularly weak on what will be done and how it will be done, including particularly the assumptions about what works to promote democracy. (As currently drafted, there is an implicit assumption in the bill that the stated policy objectives are always complementary and mutually reinforcing. In fact, unless properly coordinated, programs to promote democracy, environmental sustainability, and economic growth through trade and investment can have contradictory programmatic objectives.)

This is important because it is not self-evident what can be done to promote democracy through direct government assistance, and what can be done indirectly through improving the international economic environment so that it is supportive of the needs of emerging democracies. In addition, the legislation implies a diminution of attention to the strengthening of governmental capacities which may be equally crucial to the promotion of democracy.

Seventh, the draft bill does not make it clear who is in charge of overall policy. Making USAID a statutory agency is a positive step, but USAID should receive a much clearer delegation of authority to formulate and implement long-term sustainable development programs. (It now appears that USAID is only responsible for implementing programs covered by Title I.) For instance, the draft is silent on the relationships between USAID and those in the State Department responsible for the international organizations and for global issues.

The draft also is silent on the issue of interagency coordination. Given the number of agencies whose policies have an impact on U.S. support for sustainable development, some mechanism is needed to assure coherence in the developmentally consequential actions of Treasury, Agriculture, HHS, State, OPIC, Ex-Im, USTR, Peace Corps, EPA, Interior, Commerce, and other agencies with international programs. Simply giving the authority to the Department of State is not adequate because the Department has shown neither the ability or the willingness to play that role. It will be particularly important, therefore, to ensure a consistent development perspective in U.S. policy toward the multilateral institutions. In addition, there must be adequate mechanisms for consultations with Congress and the NGO community.

NEEDED IMPROVEMENTS

It follows from the above that I think several improvements need to be made, either through amending the current draft or in agreements reached between the Congress and the Executive:

1. Clear priorities need to be established among and within the Titles of the draft legislation, including on budget allocations. (For instance, in the FY 1995 budget proposals sustainable development programs receive less than one-quarter of the International Affairs allocations.);
2. Measures of success need to be established so that the efficacy of programs can be evaluated;
3. The interrelationships—and coordination—between bilateral and multilateral programs need to be clearly established;
4. Poverty alleviation needs to be clearly identified as central goal of U.S. development policies;
5. The programs and priorities designed to promote democracy need to be specified in more detail;
6. A coordination mechanism to assure coherence among the agencies and programs of the federal government needs to be put into the legislation.

* * * * *

Finally, let me say a word about budget priorities. Agreement between congress and the administration on new legislation could turn out to be a pyrrhic victory unless the current budget crisis in the international affairs account is dealt with directly. The Administration's decision to hold the international Affairs budget virtually steady in FY 1995 is a welcome recognition that essential American interests abroad are at stake in the coming years.

The proposed budget also reflects the reality that in the post-Cold War period important U.S. security interests can't be addressed through military means. But as a result, programs designed to end the conflict in the Middle East and to facilitate a peaceful transition in the former Soviet Union will claim over half of all the funds requested for FY 1995 to build democracy, promote sustainable development, promote peace, and provide humanitarian assistance. Similar opportunities and needs overseas are likely to multiply in the coming years. Hopefully, this will force a fun-

damental re-examination of the balance between our budgets for military programs and those designed to promote our non-military interests abroad.

[The ODC's last alternative budget paper referred to may be found in committee files.]

Senator SARBANES. We appreciate that offer of assistance which we anticipate taking advantage of, and we thank you very much for the statement. Mr. Bissell.

**STATEMENT OF HON. RICHARD E. BISSELL, VISITING FELLOW,
OVERSEAS DEVELOPMENT COUNCIL AND AMERICAN UNI-
VERSITY, WASHINGTON, DC**

Mr. BISSELL. Thank you, Mr. Chairman. I appreciate the opportunity to testify before you and Senator Kassebaum this morning.

We have examined aid reform many times, and the need remains as great as ever. I am delighted to see the committee taking up this draft bill. Let me briefly recap a few of the major issues we have discussed in recent years with regard to aid reform.

First is the need to simplify. The many objectives, themes, goals, cross-cutting issues, and precautionary amendments are all familiar. One of the major goals of this process has been to, "get back to basics."

The second is the need to coordinate. The number of agencies involved in international activities abroad has burgeoned in the last decade. I do not know of any Federal agency, frankly, that does not have an international office or bureau. The need for coordination continues to grow.

Third is the need to relate to nongovernmental development efforts emanating from our own society. The many universities, private voluntary organizations, cooperatives, and businesses that already are committed and involved in development activities abroad has long been recognized as a unique American asset.

And the fourth longstanding issue, but certainly not least, is the need to relate our foreign assistance programs to a significantly changed U.S. role in the world: the end of the cold war, the economic collapse of the former Soviet Union, the emergence of Asia, and the opportunity to develop new relations with the neediest people around the world.

I raise those issues in hopes of reminding all of us where this debate over aid reform has been in recent years. The issues are not partisan, and I hope they will serve as anchors for a new authorization.

In your invitation to testify, Mr. Chairman, you asked that we address the administration's proposed new policy framework. I want to address briefly the sustainable development issue that I know best. Our foreign assistance program has focused on sustainability for a long time. Among aid agencies, USAID has long been known as caring about the long-term impact of its foreign assistance.

But aid is not always sustainable. Indeed, the terms are not synonymous. Foreign assistance that is untargeted, bereft of strategic direction, uncoordinated, or badly implemented, does not contribute to sustainable development at all. If we use foreign assistance to simply maintain a presence in some countries we should not pretend that it is contributing to sustainable development. It may ful-

fill certain foreign policy goals, but it is not an expression of development policy. On that score, I applaud the administrator for accelerating the closure of 21 missions, many of which had become largely inconsequential.

At the same time, the use of Government resources in a long-term program that does enhance sustained cooperation between the United States and a foreign country can have benefits far beyond our lifetime. Training programs from around the world that bring the brightest to the United States to study economics, business management, and many other technical fields have had and will have payoffs decades in the future, both for the developing country and for the United States.

With regard to the new bill I have several concerns and questions. One, does the new legislation meet the need to simplify? As one reads through the statement of policy in the bill, is it clear what really counts? Has there been a diffusion of goals or a narrowing of goals that focus on priorities? Have any goals from the Foreign Assistance Act of 1961 been deleted or placed in a category where they are clearly subsidiary to the others? One can only hope that administration testimony will clarify how the Agency does hope to get back to basics.

A first reading would suggest that the administration has simply created larger new policy umbrellas under which to include even more priorities. The USAID is now being called upon to expand areas where it has not traditionally had significant depth.

In democracy programs, for instance, while the work USAID has done in applied governance, human rights, election support, and administration of justice, have all been valuable, the real depth of expertise in most of these areas is outside the Agency. Would it not make more sense to review all of the Government's programs related to democracy—after all, the National Endowment for Democracy is now 10 years old—and give those efforts some institutional coherence? It is not clear in this context why we need a proposal from USAID for support for democratic participation programs in the fiscal year 1995 budget and separate support for a democracy title elsewhere.

Does the fiscal year 1995 budget tell us where the priorities lie? The numbers indicate that the administration is diminishing its support for economic growth, which already took the greatest cut in the fiscal year 1994 budget of any category and it is now being cut again. If development cannot be engaged by USAID in the comprehensive, time-tested manner of development specialists, then it may need to be insulated in some way from political pressures.

Second, does the bill reflect the need to coordinate U.S. activities in developing countries, particularly with foreign assistance, better than in the past? The bill deletes prior statutory references such as to IDCA, and in recent testimony Administrator Atwood said that the bill recognizes the Secretary of State's paramount role in coordinating all overseas programs. The new bill does not alter this traditional role.

If there was one tendency in the past of concern to those of us in the development field it was that the Department of State was consistently unwilling to invest the time in this coordination process. If USAID is going to be closely associated with the Department

of State it needs to get the best of the relationship—that is, effective coordination within the executive branch—as opposed to just the worst—that is, subordination of sustainable development programs to short-term foreign policy goals.

Third, does the bill bring about a stronger partnership for development with the universities, PVO's, and businesses, to achieve a real improvement in social and economic indicators abroad? The policy language of the bill properly places strong emphasis on the potential value of PVO, university, and cooperative involvement in the development process. And yet the partnership to which the bill refers is that between USAID and the NGO community. Is not the partnership we really want to encourage in the long term that between the NGO community and similar institutions in developing countries?

In conclusion, several issues need to be highlighted. The expenditure of political energy on passing an authorization is sufficient to justify taking a careful look at its individual provisions as well as its assumptions. The bill reflects some years of careful reflection about how to make our program work better. But in terms of policy, our foreign assistance program needs to get back to doing what it does well and focusing on what is basic to the recipient countries.

In many people's estimate, what USAID does best is economic development, facilitating broad-based economic growth set in the context of environmental sensitivity, equitable participation by all people, and honest, capable government.

Thank you.

[The prepared statement of Mr. Bissell follows:]

PREPARED STATEMENT OF MR. BISSELL

Thank you, Mr. Chairman. It is a pleasure to be able to testify before this Committee this morning.

Mr. Chairman, we have re-examined aid reform many times over the last six years, including my own endeavors in incarnations at the U.S. Agency for International Development. While we have not achieved major reform in that time span, the need for reform remains as important as ever; today, it is manifestly in need of a new authorization. I am delighted to see this Committee taking up this issue.

If I may briefly summarize some of the principal issues we have discussed in recent years with regard to aid reform, they boil down to these:

(1) The need to simplify: the many objectives, themes, goals, cross-cutting issues, and precautionary amendments are all familiar. One of the major goals of this process has been to "get back to basics." The issue is not an inability of USAID to manage multiple mandates; the issue is that they are frequently contradictory, or given no priority. As a result, the program stalls, like an automobile asked to go in several directions at once.

(2) The need to coordinate: the many agencies involved in international activities abroad has burgeoned in the last decade. I don't know of a federal agency that does *not* have an international office or bureau. Even if that office is just one senior official, its mandate is to expand the agency's role abroad. The evident failures of past attempts of authorizing legislation to create such coordination (as in the Development Coordination Committee or the International Development Cooperation Agency) does not argue against trying; it is testimony that the need, if growing, has always been there.

(3) The need to better relate to non-governmental development efforts emanating from American society: the many universities, private voluntary organizations, cooperatives and businesses already committed and involved in development activities abroad has long been recognized as unique American assets. Our private development efforts dwarf by many magnitudes similar capacities of other donor countries in developing countries. Throughout our reform discussions, the question has been how best to capitalize on that capacity—not to stifle it with a bureaucratic blanket, but rather to empower and enlarge it.

(4) Lastly, but certainly not least, the need to relate our foreign assistance programs to a significantly changed U.S. role in the world: the end of the cold war, the economic collapse of the republics of the former Soviet Union, the emergence of Asian economic power, and the need to find selective areas of U.S. leadership in global councils. This last issue becomes particularly difficult to confront, because of the continuing lack of consensus over an appropriate U.S. place in a "new world order." Those who hoped for a rapid transition from the comfort of a bipolar world to another secure structure have been badly disappointed. Assuming that we may have to live with substantial strategic flux for some years, we who are interested in aid reform have to ask where the foreign policy anchors may be.

I raise the four issues above in hopes of reminding all of us where this debate over aid reform has traversed in recent years. I don't believe there is strong disagreement over the nature of those issues. They are not partisan. And to the degree that our foreign aid program has always been most effective when blessed with adequate bipartisan support, I hope that they will serve as continuing anchors for our consideration of a new authorization.

In your invitation to testify, Mr. Chairman, you asked that we address the Administration's proposed new policy framework for foreign aid as it relates to sustainable development and disaster assistance. Clearly, I shall leave the latter issue to my much capable colleagues, Ms. Taft and Mr. Natsios. I want to address the question of sustainable development, and shall do so in the context of several salient questions.

How can foreign assistance focus on sustainable development? In many countries and in many ways, foreign assistance has focussed on sustainability. Among aid agencies, USAID has long been known as caring about the long-term impact of its foreign assistance. But aid is not always sustainable; the terms are not synonymous. Foreign assistance that is untargeted, bereft of strategic direction, uncoordinated, or badly implemented does not contribute to sustainable development. We should not treat "sustainable development" as a handy euphemism for whatever we want to do; if we, as the American people and the Congress, are not willing to invest in a program of sustainable quality, we should not do it at all.

If we use foreign assistance to simply "maintain a presence" in some countries, we should not pretend that it is contributing to sustainable development. It may fulfill certain State Department goals, but it is unlikely to be an efficient use of the international affairs account. On that score, I applaud Administrator Atwood for accelerating the closure of 21 missions, many of which had become largely inconsequential.

At the same time, the use of government resources in a long-term program that enhances sustained cooperation between the U.S. and a foreign country can have benefits far beyond our lifetime. The examples of training programs from around the world that bring the brightest to the U.S. to study economics, business management, and many other technical fields have payoffs decades in the future—both for the developing country and for the U.S. The in-depth partnerships that can be created through strong assistance programs focussed on technical problems have marvelous cost-benefit ratios. And the benefits appear in economic, political, and sociological terms.

Will the "Peace, Democracy and Development Act of 1994" make any practical difference? That's not clear; it will depend on the final form of the PDDA that is passed by the Congress, and whether the appropriators will cooperate with the spirit as well as the letter of the reform. I believe it needs some strengthening for it to have practical impact. A set of questions might help determine the type of reform that needs to emerge; for example:

(1) Can we design a foreign aid reform bill that would generate a stronger, *practical* majority in Congress? Too much of the foreign assistance program gets mortgaged by the weak majority it cobbles together. Is it possible to create a new program that is not merely a coalition of vested interests, supporting only one piece of the program?

(2) Can we authorize a foreign assistance program that would have clearer, *practical* results in the field? The need for implementation flexibility and multi-year authorizations has long been at the head of the list. The need for clearer measures of long-term development results is clear. And perhaps most important to the quest for sustainability, can the Agency show that the beneficiaries are "taking ownership" of such development efforts through broad-based participation, so that future generations will also benefit from our investments? Is the current Congress willing to press USAID for such a practical solution?

(3) Can we authorize a set of authorities with regard to administration, procurement, and personnel that would create a much more common-sense, *prac-*

tical relationship with those who carry out the foreign assistance programs? This Committee has heard enough testimony over the years about the bureaucratic difficulties of working with USAID, or within USAID, to know what has to be done.

(4) Can our foreign assistance program be asked to report on progress in its programs in such a *practical* manner that the average American can understand what she getting for her tax dollar? The accomplishments of our assistance program are legion, and the American people, when they are given a down-to-earth explanation of what is going on, support foreign aid.

If this Committee can answer these questions with affirmative provisions in a new reform bill, the answer would be yes, foreign aid reform will make a practical difference.

If this Committee wants to mark up the Administration draft of the PDDA, I would suggest a variety of concerns that I raised at the beginning of this testimony for consideration, particularly in areas where the draft bill needs additional work.

Does the new legislation meet the need to simplify? As one reads through the "statement of policy" of the PDDA, is it clear what really counts? Has there been a diffusion of goals or a narrowing of goals to focus on priorities? Have any goals from the Foreign Assistance Act of 1961 as amended been deleted, or placed in a category where they are clearly subsidiary to the others? One can only hope that Administration testimony will clarify how the Agency hopes to get back to basics.

Indeed, a first reading would suggest that USAID is now being called upon to expand areas where it has not traditionally had any real depth. In democracy programs, for instance, while the work USAID has done in governance, human rights, election support, and administration of justice has been valuable, the real depth of expertise in these areas is outside the Agency; wouldn't it make more sense to review all of the government's programs related to democracy (e.g., the National Endowment for Democracy is now ten years old), and give those efforts some institutional coherence? It is not clear, in this context, why we need a proposal from USAID for "support for democratic participation" programs in the FY95 budget, and a separate "support for democracy" title elsewhere? In the area of the environment, USAID has been a pioneer of excellence in ensuring that development does not harm the environment. But does it have any real comparative advantage in programs and projects purely focussed on improving the environment, such as global climate change? At a minimum, shouldn't the review of such environmental efforts also include programs at the Departments of Agriculture, Interior, Commerce, and Energy, as well as the EPA? It certainly sends an odd message to the nominal beneficiaries of foreign assistance: developing countries do not see climate change as a "development issue." And at home, environmental groups are saying it is time for more than a "no-regrets environmental strategy" that has been at the core of USAID's activities.

Does the new FY95 budget tell us where the priorities lie? I know this Committee will look carefully at the budget to see if the priorities are right, and if they are sufficiently focussed in development purposes to make it worthwhile to pass this bill. The numbers indicate that the Administration is diminishing its support for economic growth (which already took the greatest cut in the FY94 budget of any category, and is now being cut again), as opposed to politically-attractive themes such as environment, democracy, and population programs. Development is too serious an issue for billions of people to be placed at the mercy of political fashions. If development cannot be engaged by USAID in the comprehensive, time-tested manner of development specialists, then it may need to be insulated in some way from political pressures.

Does the PDDA reflect the need to coordinate U.S. activities in developing countries, particularly with foreign assistance, better than in the past? The PDDA, of course, deletes prior statutory references, such as to IDCA, and in his testimony last week, Administrator Atwood said that "the bill recognizes the Secretary of State's paramount role in coordinating all overseas programs, including coordination within the executive branch of budget and foreign policy issues. *The new bill does not alter this traditional role.*" (emphasis added) If there was one tendency in the past of concern to those of us in the development field, it was that the Department of State was consistently unwilling to invest the time in the coordination process. If we maintain that "traditional role" as played by the Department of State, coordination is lost. And in an era when the developing countries lose much more in the outcome of a GATT round than they gain in foreign assistance, we shall be merely papering over the cracking dike by adding foreign assistance. If USAID is going to be closely associated with the Department of State, it needs to get the best of that relationship (coordination within the Executive Branch), and not just the worst (subordination of sustainable development programs to short-term foreign policy goals).

Does the PDDA bring about a stronger partnership for development with U.S. universities, PVOs, and businesses to achieve real improvement in social and economic indicators abroad? The policy language of the PDDA properly places strong emphasis on the potential value of PVO, university and cooperative involvement in the development process. And yet the "partnership" to which the PDDA refers is that between USAID and the NGO community. Isn't the partnership we want to encourage in the long-term that between the NGO community and similar institutions in developing countries? Isn't the U.S. government foreign assistance program in this area a facilitator for sustainable partnerships between private sectors in donor and recipient countries? It may be that a U.S. government agency is not the best vehicle to expand such partnerships. Would it make more sense to expand programs in some of our long-term development foundations, such as the Inter-American Foundation or The Asia Foundation—or even create a new foundation for sustainable development—in order to focus deliberately on the many private development institutions in American society?

Does the PDDA better relate our foreign assistance program to a larger U.S. foreign policy strategy? That is unclear from the bill. Last week, the Administrator said that he was "trying to create a de facto merger with the State Department." That presumably means that, if our foreign policy is reactive and focussed on crisis management, so will our foreign assistance—a mistake in my view. Or if we have a strong, proactive post-cold-war strategy, USAID can be part of that, too. What concerns me is that the Department of State does not have an institutional interest in the long-term aspects of the foreign assistance program. Sustainable development would be highly vulnerable in a time of budget-cutting to a generalized, but erroneous mood in the State Department that such programs never pay off.

In conclusion, several issues need to be highlighted. The expenditure of political energy on passing a PDDA is sufficient to justify taking a careful look at its individual provisions as well as its underlying assumptions. The bill reflects some years of careful reflection about how to make our program work better—and the legal crafting that went into this draft bill deserves accolades. But in terms of policy, our foreign assistance program needs to get back to doing what it does well, and focusing on what is basic to the recipient countries. In many people's estimation, what USAID does best is economic development—facilitating the kind of broad-based economic growth set in a context of environmental sensitivity, equitable participation by all people, and honest, capable government. Such a program of assistance does not need lots of bells and whistles—it needs to practice its comparative advantage, and leave the rest to multilateral or private institutions.

After my experience of the last decade, I am convinced that the American people will support the right kind of assistance program: straightforward, pragmatic, responsive to needs, and focussed on issues where Americans can make a difference. If you make the PDDA into a bill that can fit that description, it will be well-supported at home and make a difference in people's lives abroad.

Senator SARBANES. Thank you very much. Mr. Natsios.

STATEMENT OF HON. ANDREW NATSIOS, VICE PRESIDENT AND EXECUTIVE DIRECTOR, WORLD VISION, WASHINGTON, DC

Mr. NATSIOS. Thank you, Mr. Chairman. We would like, at World Vision, to thank you for the opportunity to speak before the committee on the subject of reform of foreign assistance.

Given the extraordinarily expansive subject and the complexity of the legislation, I would like to focus my attention on what I know best and what World Vision is deeply involved in in many countries. Though we are primarily a development agency, I would like to focus attention today on the growing number of complex humanitarian emergencies which in the 3½ years I served in the Bush administration I was responsible for dealing with from the humanitarian perspective.

These emergencies, we believe at World Vision, present the Western democracies with one of the central challenges to the world order. Evidence suggests that these emergencies will be heavily concentrated in three areas of the world: Africa, the Middle East, and the newly independent states of the Commonwealth of Inde-

pendent States. The number of these emergencies increased from an average of 5 per year between 1978 and 1985 to 20 this year. Last year there were 17 and this year there were 20. There is a geometric increase going on of these emergencies.

Senator SARBANES. How are you defining an emergency?

Mr. NATSIOS. A complex humanitarian emergency has four defining characteristics. The first is that the national economy unravels. You usually see a huge decline in the gross national product.

The second is there is a collapse of central political authority or a deterioration of the authority of the central government. It may not collapse, but as in the case, for example, of Zaire where there is certainly a complex emergency, the national government is not in control of the provinces or the country.

The third is that there is a humanitarian crisis where large numbers of people's lives are at risk of disease and starvation.

And fourth, the security situation has become a great impediment to civil society where law and order has broken down. There may be, in fact, a political conflict in the country between various militia groups.

When those four are present in large measure you have a complex humanitarian emergency.

The Office of Foreign Disaster Assistance, which I ran for 2½ years and was responsible for for another year, had its expenditures increased from \$48 million when I started to over \$200 million in the last fiscal year. Ninety percent of OFDA's budget is spent on complex humanitarian emergencies, not on natural disasters.

Now, it seems to me, given my experience both in the Bush administration and now as vice president of World Vision, that the central problem that we are facing in these emergencies is not on how to stop people from starving to death. We know how to do that. We did it in Somalia in spite of a very chaotic situation after the military arrived. Second, we do know how to restore order. It takes troops. There are ways, if you give the U.N. proper equipment and a proper number of troops, that you can restore order in a chaotic situation.

We do know what works in economic development. AID has had a lot of experience in that. There are certainly debatable issues, but there has been a lot of success in Asia and in some Latin American countries in economic development.

Of the four disciplines that we deal with in complex emergencies, we do understand how to respond except for the issue of political development. AID, the State Department, the U.N., and the international community have not done very well on the issue of restoring collapsed or deteriorated national political authority in a country which is in the middle of a crisis. There is a reason for that. The increase in the number of emergencies has caught us by surprise. We did not expect that national political authority would be the central focal point of our failure in terms of responding to complex emergencies.

Now, what the legislation seeks to do is to add in the component of political development. They call it democratization. I think that is too narrow a term. This is not just a case of moving toward democratic government. In many cases it is moving toward a gov-

ernment of some kind. Three countries in the world have no government whatsoever: Liberia, Somalia, and Afghanistan. There is every reason to believe they are not going to find a government in the next couple of years. It does not look like it is on the horizon.

The reality is that we have not developed the tools essential to reestablish political authority in a civilized way in countries in crisis. And so the bill does deal with political development but in a very inadequate way. This section, in my view, needs to be broadened beyond just democratization.

Democratization to some people in AID means election monitoring and a few spinoffs from that like aid to new legislative bodies, legislative procedure, and legislative management. It is far beyond that. It is creating the institutions of civil society which are gone in 20 of the countries of the world right now.

Now, the issues are there that we need to deal with in the area of political development, and AID in my view and in World Vision's view ought to be charged with the responsibility of carrying out the political development mandate. The problem is it has two weaknesses in this area. The first is it moves with tortoise-like speed when it comes to development programs. It does a wonderful job in designing things in theory and it has a big problem in implementing things, particularly in a speedy fashion which is what you need in major crises.

The second is that the staff that has been recruited over the last 20 or 30 years in AID is essentially human-needs people, many of whom came out of the Peace Corps, and second academic economists, both of whom are needed. World Vision does a lot of human needs work and we do economic development work, and we understand the central importance of that. But without political scientists and experts in political development we will not have a stable environment to carry out economic reforms or to provide for basic human needs.

There are 58 million people who are at risk of starvation in these complex emergencies over the world in the last fiscal year; 58 million people is an awful lot of people at risk. And it is because political authority has collapsed in those countries.

Now, Brian Atwood has done something that we heartily endorse. It may be one of the most important innovations of his administratorship, even though it is not widely known, and that is the creation of the Office of Transition Initiatives which would seek to deal with this issue in one office. The office, however, has had a rocky start. I saw the initial draft of the mandate of that office and it has been significantly circumscribed by bureaucratic in-fighting since he created it by staff, both at the State Department in the regional bureaus and in AID, saying this is our business, not the bureau business where it was put. So there is a lot of in-fighting around it.

I think that if they are going to be serious about political development, particularly in crisis situations, we need to strengthen the language in this bill for AID to carry out this function, one, and second, to be carried out specifically in the office that has been created to deal with it.

Now, I would like to deal quickly with three operational problems OFDA is having, it had when I was there, it has now, it has

not changed as a result of the change in administration. The first is while OFD's budget has gone up almost 500 percent its staff has declined by 20 percent. Now, the current administration is intending to increase by four the number of staff people in OFDA. In my view, that is grossly inadequate to do the job it is required to do.

The second problem is the budget process. As the budget has increased, OMB and the Budget Office of AID's oversight into OFDA's work has increased. That is fine. The problem is it is now slowing down needed money going through that office out to the NGO community and to the U.N. and the ICRC to do their work in complex emergencies. We suggest that there be a 25 percent automatic allocation of OFDA's appropriated budget each quarter, as is done for many Federal agencies. It is not done for OFDA. Of all offices in the Federal Government, OFDA should have an automatic amount of money that it gets each quarter that can be guaranteed it will get from its appropriated amount of money.

The third problem is the question of prevention, mitigation, and preparedness. It is much cheaper to deal with a crisis and much more humane because people die in the middle of crises. If you can prevent the crisis from happening you can usually save lots of people's lives. The problem is that the mandate of OFDA in the area of PMP, as we call it, is weak in the legislation. It is suggested, it is not elaborated, and more importantly, it is not mandated for the whole Agency. And the problem is the regional bureaus for years, under three administrations now, have refused to accept their responsibility for integrating into development programs prevention, mitigation, and preparedness initiatives.

If you look at the major natural disaster and manmade disaster risk countries of the world there is very little in any of the development programs of AID that speaks to those risks. I think that is a very serious shortcoming and makes sustainable development questionable. This is not a suggestion for a new mandate, it is a suggestion that we redefine the word sustainable to include prevention, mitigation, and preparedness measures, because if you invest in an earthquake-risk country in heavy infrastructure and you do not have something that deals with earthquake resistance in the design then you are wasting the money because eventually, as we saw in Los Angeles, the investment can be collapsed in a matter of a couple of minutes.

Those are my comments.

[The prepared statement of Mr. Natsios follows:]

PREPARED STATEMENT OF MR. NATSIOS

We at World Vision would like to thank the committee and you Mr. Chairman for the opportunity to testify today on the reform of U.S. Foreign Assistance.

Given the extraordinarily expansive subject and the complexity of the legislation I would like to focus my attention on a subject with which I am most familiar and in which World Vision is deeply involved and that is growing number of localized conflicts of incredible violence and brutality and the complex humanitarian emergencies which result from them. Senator Moynihan has dealt with this issue in a new book on the subject as has Alvin Toffler. Robert Kaplan in the latest issue of the Atlantic Monthly has drawn a nightmare-like picture of chaos in the 21st century in the developing world which, while exaggerated, has a good deal of truth to it.

These emergencies we believe present the western democracies with one of the central challenges of the new world order. In designing any bill you must to some degree be prophetic, but particularly so now as this bill comes at a time of great

ferment in the international system: what the new order of things will bring is not at all clear. Is the current explosion of ethnic and religious conflict a temporary or a permanent condition? We believe that it will be a permanent feature of the international system for some time and therefore should be a focus of any foreign assistance reform.

One problem with the draft legislation is that it assumes a relatively stable environment within which the international community will be working in developing countries over the next several decades. In fact the environment will likely be much more chaotic and insecure, with a very unstable and difficult work environment. Sustainable development is extraordinarily difficult if not impossible in the middle of a complex humanitarian emergency.

The evidence suggests complex humanitarian emergencies will be more heavily concentrated in the Commonwealth of Independent States, the Middle East and Africa. The political situation in these countries in crisis will likely change quickly, security will be a much more serious problem both from the collapse of order and from politically or ethnically motivated violence, and we may see more and more societies actually regressing, not just standing still. These factors will profoundly affect the relevance of USAID and the way in which it does business.

Outside the Bureau of Humanitarian Response, which contains Food for Peace and the Office of Foreign Disaster Assistance, USAID has shown little skill in crisis management, particularly at the program level, or in the operational skills needed to manage fast moving, unpredictable events. I would like to spend some time on some of the problems of managing crises and of program implementation in complex emergencies which if they are not dealt with will make USAID irrelevant in the new world order. USAID has been widely praised for its fine design and theoretical work and properly criticized for its Byzantine turf fights, implementation problems and inability to act with dispatch when time is essential. In our view it is in the implementation stage where USAID most frequently falls short.

It is not an anomaly that a significant shift has taken place in the past few years from spending on development to spending on relief by the specialized United Nations Agencies, donor countries and non-governmental organizations. The number of complex emergencies has increased from an average of five per year between 1978-1985 to 20 this year. The expenditures of the Office of Foreign Disaster Assistance (OFDA), which do not include food aid for disaster victims, has increased from \$48 million in FY 1989 to over \$200 million in FY 1993. Over 90% of the OFDA's budget is spent on complex humanitarian emergencies not on natural disasters.

Complex humanitarian emergencies nearly all include crisis in four areas: the collapse of political authority, the unraveling of the national economy, a humanitarian crisis where large number of people's lives are at risk from disease and starvation, and a security situation where order has broken down. We have developed in the international community a good deal of experience in addressing each of these four elements as well as the institutional mechanisms for carrying out our responses to these emergencies with one notable exception: the collapse of political authority.

During the cold war our national security goals were different and the containment strategy we pursued focused our attention on the Soviet threat as our primary foreign policy concern. We took sides and fought the fight. We are facing an increasing number of crises where there are no sides to take, and even when there are it may be unwise for us to take them. In the cold war context there were usually two sides—east and west—and country elites would guide their countries to either side of the cold war divide. Many of the members of the national elites in most complex emergencies are either dead, traumatized, and in exile. They are in any case without any or at least reduced authority to negotiate a political settlement, let alone enforce it, or create a process of national reconciliation. Under these circumstances the traditional State Department diplomatic approach to conflict resolution is of little use. Increasingly the elites State seeks to negotiate with in these emergencies have no control or authority over the populations in their respective societies, populations which will determine whether the negotiations will ever make any difference.

The legislation properly speaks of the importance of democratization and conflict resolution. It does not clearly explain whether State or USAID is responsible for carrying out the democracy mandate, nor what that mandates includes in any detail. More to the point the term democratization is much too limiting: political development would be more descriptive. What most complex emergencies need is a strategy for restoring political authority to national institutions, starting the process of political development over again or maybe starting it from scratch because it never was allowed by autocratic or totalitarian governments from beginning in the first place, recreating mediating institutions to allow warring ethnic, tribal and religious groups to deal with one another without violence, and reconciling entire populations which

have a nearly psychopathic hatred for each other, hatred which makes civil society impossible. These objectives can not be easily carried out by the State Department, which does not prepare even its most skilled senior diplomats to design and manage the funding and the programs needed to reach these objectives. State tends to focus on more short term goals, using nuanced language and pressing certain levers of power which will change elites behaviors, levers and language which don't exist any more.

USAID should own the democratization and political development objectives because it does have experience in designing and managing multi-billion dollar long term development programs. USAID has two problems with carrying out these objectives however: (1) while it can design and manage programs it moves with tortoise-like speed, when events require rapid response and (2) it has recruited a staff over the past twenty years of economists and human needs experts when what are now needed in addition are political scientists and political development experts, disciplines in short supply in the Agency. Reconfiguring the regional bureaus and recruiting the career staff needed to carry out these new functions will take time, time we don't have. I presume that is why Brian Atwood created the Office of Transition Initiatives (OTI), perhaps the most significant innovation of his tenure in office. OTI would focus in one office the expertise needed for USAID to develop these new skills, with a much more rapid turn around time in program design. It is properly placed in the Bureau which contains Food for Peace and the Office of Foreign Disaster Assistance, the sister offices which deal with complex emergencies.

We enthusiastically endorse the creation of OTI and the conceptual framework behind it. OTI is the only near term hope the Agency has to deal with the political development challenges of the new world order. The only difficulty we see are bureaucratic: the office was nearly still born, emasculated by bureaucratic turf battles. If one compares the initial draft charter of the office from the summer of 1993 with its current mandate a serious erosion has taken place of its original purpose, which now excludes crisis prevention. The Foreign Service Officers Association opposed its creation. Some members of the NGO community itself have not risen to its defense, indeed some NGO's are unenthusiastic about democratization programs in USAID. We believe that political development initiatives by USAID are essential if we in the NGO community are going to have the stability we need to carry out our work. If OTI is restricted to election monitoring and other very narrowly defined democratization measures we will have lost a great opportunity to strengthen the institutional tools available to stimulate political development, implement peace accords in conflict situations, prevent and mitigate complex emergencies before they explode and whole countries descend into chaos.

This legislation needs to be amended to expand with clear definition the mandate of USAID in democratization generally, crisis prevention initiatives, the operational implementation of peace accords, and support for countries in transition between authoritarian governments and democracy. These mandates should not be assigned by bureaucratic turf fights, which is what will happen if Congress does not clarify roles in the legislation. I am not arguing here for micromanagement of the Agency's work, but leaving its mandates vague and ill-defined will put it at a distinct disadvantage in turf fights within national security apparatus of the U.S. government.

The existing disaster response mechanisms within USAID are among its most admired and effective work but are showing the same strains other disaster relief offices are showing under the massive increase in the number of complex emergencies. These problems need to be addressed some through administrative changes, some legislatively, if the United States government is continue to provide leadership in responding to complex humanitarian emergencies. As a PVO we have a deep interest in food aid, a subject not covered in this testimony because PL 480 is not part of this legislation.

The number of full time equivalent positions in OFDA and Food for Peace (FFP) have declined over the past three years as the number and complexity of these emergencies has increased. With a 500% increased in OFDA spending over the past five years the FTE staff has decline by 20%, replaced by contractors. This understaffing has seriously affected USAID's ability to respond quickly to these emergencies and participate in policy debates on these emergencies at State and the National Security Council. While four more positions are proposed this year for OFDA, this is no where near enough. We recognize the constraints on operating expense funding for USAID and the downsizing of the agency. Shouldn't staff be assigned where budget are remaining fully funded or increasing? Have the regional bureaus which have taken such a large cut in program funding in this current fiscal year taken an equivalent reduction in staffing? You can not in the text of the legislation assign staffing to one office or another, but you should be aware that without proper staffing the emergency offices can't do their jobs.

The second problem facing OFDA is in the budget process itself. As the budget of OFDA has increased so have the delays in the transfer of appropriated funds from both the budget office of USAID and OMB, delays which have begun to impair the work of the office. The oversight of these two offices is certainly important, but the work of OFDA which is time-sensitive and very focussed narrowly on relief and rehabilitation should not be impaired by it. The situation has not improved with the change of administrations. We suggest an automatic quarterly allocation system be written into the text of the legislation which would transfer directly from OMB to OFDA at the beginning of each quarter 25% of its appropriation, with a quarterly report from OFDA to both budget offices on how expenditures were made in the previous quarter.

The third problem which needs to be addressed in the legislation is the role of prevention, mitigation and preparedness (PMP) in dealing with disasters including droughts, before they take place and not after there has been a large scale loss of life or a country has fallen into chaos. The language in the USAID draft does not give sufficient force to this concept. Given the extraordinary damage done when a country goes through a civil war or anarchy, the high cost of responding to complex humanitarian emergencies after they take place and the much less expensive cost of prevention, mitigation and preparedness initiatives, the added emphasis in the legislation would make good sense.

More to the point the regional bureaus in USAID have shown little interest with a few notable exceptions in integrating prevention, mitigation and preparedness concepts in their development programs in countries with a high risk of natural disaster. This inattention makes much of the Agency's development work in these countries unsustainable and very vulnerable. Disaster prevention is an indice of development. The recent Los Angeles earthquake would have killed tens of thousands and destroyed whole cities had it taken place in Latin America, and yet no earthquake preparedness program exists in USAID's regional bureau portfolio for Latin America. The World Bank is now integrating PMP efforts into its development programs, something the Committee might consider requiring of USAID, not as another program but as part of the definition of sustainability.

In conclusion we would add one caution about the legislation. The obvious attempt in the draft is to make a general statement of principles and not focus on organizational, structural and coordination issues, leaving them to the executive branch to consider. It is on these issues that the U.S. government is most vulnerable. This bill does not create the institutions to cope with the painful realities of the new world order, it leaves it to the executive branch to do that. There is of course a risk that the State Department will win the turf fights and so politicize USAID that its relief and sustainable development work will be compromised.

The challenges which are before the international community are daunting and some of the more pessimistic assessments of life in the developing world in the next century are frightening, but we at World Vision are still hopeful that the next century may be more just, decent, and peaceful than this century if we are faithful to our calling and ministry as Christians.

Senator SARBANES. Thank you very much. We thank the panel. I have just a couple of questions that I want to put to you, then I will yield to Senator Kassebaum.

I take it none of you see in this legislation a radically new approach to foreign aid, would that be correct? [Panelists nod affirmatively.]

This essentially is staying within, roughly speaking, the guidelines that we have been following, would you agree with that? [Panelists nod affirmatively.]

Does anyone disagree with that? [Panelists nod negatively.]

Well, if you are doing a radically new approach, I can understand how you would just repeal everything, wipe it off and try to put something very different in its place. One of the difficulties that I perceive we have here in repealing and basically staying with the same approach is a lot of time and effort is going to be spent on what is it that is being repealed. I mean, we are going to have to scrub back through this thing to see what is being knocked out.

It really raises the question whether an approach that identified changes that needed to be made in the existing arrangements and

did the changes but did not wipe everything off giving you then the task of working your way through all of that might in fact achieve as much or get you further, actually get you further ahead. Does anyone have any reaction to that? I would be interested in your reaction to that observation.

Ms. CAPPS. I will give it a try. There are, of course, various ways of approaching reform. One is, as you suggest, to go through current legislation and update it. Our basic feeling has been that there is a need for reform that adapts a foreign aid program which was developed, or the basic legislation for which was developed, in 1961 to a post-cold war perspective. And our community has, therefore, called for and supported foreign aid reform.

On the other hand, I think you are right that in terms of this legislative proposal while in some ways it does strike out in some new directions and it gives greater emphasis, for instance, to democracy-building initiatives, in many ways, though, it does look a lot like the legislation that is on the books now. So it is a mix. And we also are having difficulties sorting out exactly what is being repealed, what authorities are still there from previous legislation, and trying to weigh those in terms of a new approach.

I will say we do support strongly the emphasis on sustainable development as a focus for the Agency for International Development. We think it is important to reassert that as the main objective at this point. And while we share some of the concerns of John that the poverty alleviation aspect of sustainable development perhaps does not come through strongly enough, we do think that it is important to have that focus on poverty alleviation within the context of environmentally sustainable programs.

And we also support very strongly the language in this draft that emphasizes the importance of popular participation, because in the view of our organizations that is finally what it comes down to. A program is sustainable only if the people who are intended beneficiaries of the program have a major role in determining what that program will be.

Senator SARBANES. Thank you. John?

Mr. SEWELL. Senator, let me take a cut at your question which is a very good one. It seems to me that the committee and the Congress can go in one of two directions. Either you take this bill in its broad framework for post-cold war foreign policy or you have to consider doing development more today much differently. This is why the question of the truth is in the details is very important.

I do not know yet, what USAID is really going to do, because I have not seen country allocations, and I have not seen allocations by programs in the actual budget. I assume we are going to see that in the country programming documents in a few weeks when they come out. And I do not know which are the 50 countries that Brian Atwood talks about that are committed to sustainable development.

Nevertheless, Congress must either push the administration so that the State Department and the traditional foreign affairs apparatus really do focus on the priorities in this bill rather than the traditional priorities, or Congress must take quite a different approach. Such an approach would be to look at the world on which this bill is designed to have an impact and realize that for large

parts of what we used to call the developing world—almost all of East, Southeast, and parts of South Asia, and good parts of Latin America—traditional foreign aid programs are irrelevant.

What really is important is the openness of the world trading system, the availability of capital, and, of course, the decisions of those countries themselves about what kinds of economic policies they adopt internally. Then we can focus an aid program, or a bilateral aid program, on a set of achievable propositions of the kind that Senator Simpson and Senator Bingaman outlined. It has to be a different operation.

The bill should focus on what USAID or its successor will do, and look to the Government—if it is seriously going to be engaged in a post-cold war foreign policy debate—on how it coordinates policies across agencies on issues such as environment, drugs, and migration; and how it deals with major international financial institutions, which now will include a new trade organization.

If that does not happen, and if we do not believe that sustainable development in its very broad ramifications is a main focus of U.S. foreign policy—which is why a number of us feel that language has to be right up front in the bill rather than just on title I—then you need a foundation such as a bilateral aid agency about which a number of us have talked and on which we have made a number of proposals in the past.

Senator SARBANES. Mr. Bissell.

Mr. BISSELL. There is an agenda item in these two bills that is not generally spoken out loud. We have debated in past years whether we can get away from an assistance program that is focused on country-by-country issues and actually look at global development issues.

There is language in this bill that could sustain that transfer of perspective, that there are certain key issues in sustainable development that the United States wants to address in partnership with developing countries, among them population, food security, women's education, and others, and that if the program were carried out to target those issues as opposed to ending up being sliced up among a series of country foreign policy priorities, it would be worth fighting for. In other words, there would be reason to rewrite it along the lines that they have here.

Whether or not that is achievable will be a function both of the congressional presentation coming up, how that is presented, and the kind of dialog that then ensues between the administration and the Congress over how we decide on priorities, where is the money being allocated, and what kinds of reporting do you want. If it ends up going back into the country-by-country format on one side of the matrix with development problems down the other, you are right, there won't be much change in the way we do business. I am not sure why one would invest a lot of time in it.

Mr. NATSIOS. Let me add perhaps a different perspective on it. My observation, from working in AID those 4 years, was that the problem AID has is in implementation and management. There are certain problems that the legislation certainly presents in terms of constraints on the Agency, in terms of earmarks and that sort of thing. The Agency talked a lot about that when I was there, the career people, about that being a central problem.

I do not think that was a central problem. I think the central problem was who ran the Agency, how decisions were made, and how they were carried out, which are managerial issues. And unless you change the kinds of people you recruit into the Agency—who you recruit into any institution profoundly affects, regardless of what the mandate of the Agency is or the legislation that covers it, who you recruit profoundly affects how the institution is run.

You cannot expect economists to be experts in political development, for example, or human needs people who are Peace Corps workers to be experts in how you do macroeconomic reform. A lot of the conflicts in the Agency are a result of changes in the way in which the Agency has recruited people over the years: different kinds of people do view the world differently.

My own view is that even if you throw away the old legislation completely and started from scratch, if the institution still exists with the same people then they will find ways of taking the legislation that you write, regardless of what it is, and reconfiguring it to meet their own perception of reality, not in any sinister way but because that is in the nature of all bureaucracies.

I do not mean this in a demeaning way, but they take what they are used to, what they are experienced with, what they feel comfortable with, and that is what they do in their work.

Senator SARBANES. Well, I think that is an interesting observation. We have an agency that by its own admission has such inadequate monitoring systems that they do not know how much money they have, where it is in the pipeline, how much of it has been obligated, et cetera, et cetera, et cetera. As you listen to this you think it is just a breakdown in management.

Now, I know that the Congress is responsible for some of the restrictions, but on the other hand, many of the requirements are part and parcel of making the programs possible. I mean, you would not be able to command support in some of these areas if you did not have the requirements that are actually put into the law, either positive or negative, depending.

I have a deep concern here. We are going to spend a lot of time trying to figure out what is being done by wiping the board clean and a lot less time on identifying the positive steps that need to be taken to smooth out the process and enable them to get on about their business. But I guess that is for us to wrestle with here.

I take it you were all drawn into the consultation process more or less in a satisfactory way. Would that be an accurate observation?

Mr. NATSIOS. The NGO's certainly were, in a very methodical, comprehensive way.

[Mr. Bissell nods affirmatively.]

[Ms. Capps nods affirmatively.]

Senator SARBANES. Thank you. Senator Kassebaum.

Senator KASSEBAUM. I would like to go back to the coordination question, certainly, three of you touched on. As you know, that has long been a concern of mine, not of the interagency coordination but coordination with other donors, which, Mr. Sewell, you have spoken to. This legislation ends the Development Coordination Committee, which was not a particularly active committee.

But I share your concern about needing to have some type of coordination mechanism. I wonder what you think specifically could be done to improve that so that AID does become an important voice in interagency considerations.

Mr. SEWELL. Let me suggest several things, Senator. First, of course, there is no magic. It is much like going to the doctor to discover why you are having difficulty climbing the stairs, and he tells you to lose weight and quit smoking. You are only going to coordinate if you want to be coordinated. It takes a fair amount of will power to do so.

If I remember correctly, the never-released Wharton Report recommended a interagency committee at a very high level—I assume within the NSC—chaired by the Deputy Secretary of State with all of the principal actors involved. That is as good as you are going to get, assuming that anybody wants to be coordinated or feels that the White House wants you to be coordinated.

I would think there is a very strong case for an adjunct to the National Security Council and the National Economic Council perhaps in the form of a coordinating committee on development issues chaired at a very high level. I would hope that the Vice President would be involved as the chair because of his recognized expertise in this particular area. That is as good as you are going to get, it seems to me.

There is another device which many of the donors have used, specifically on input into the multilateral development banks. As you know, the executive director of each member countries has to be a representative of the finance ministry; in our case, the Treasury Department. That was specified in the bylaws of the Bretton Woods institutions, if I remember correctly.

Many other governments simply have the development agency name the alternate executive director. In the case of the United States the executive director; the alternate executive director would be appointed by Treasury from USAID. It is easy to do by agreement within the government and has considerable impact on coordination between bilateral and multilateral aid, not only in the World Bank, but in the regional development banks.

The issue of donor coordination, of course, is different. There are two experts on my right today, and I will let them speak to it. Let me say, however, that it is particularly crucial, it seems to me, in the case of Africa. And this is another issue in which my organization will be involved in trying to determine how we rationalize very scarce bilateral aid to Africa, because one of the real problems in aid to Africa. I think the issue of donor coordination is best approached functionally.

Senator KASSEBAUM. Mr. Bissell.

Mr. BISSELL. The ultimate model, which I have seen a number of donors use, is to give a very senior person in the State Department the job of being responsible for all international aid activities. And whether it is the Deputy Secretary of State or an Under Secretary of State, if that person becomes the Under Secretary of Assistance and has direct oversight of AID among the other activities of other agencies, and a person has it on their job description in a Cabinet ministry, the Cabinet department will be responsible for that kind of coordination.

Our downfall, frankly, on the DCC was creating something outside of the Cabinet or trying to give to AID the kind of authority that could not force somebody from powerful Cabinet departments to show up at the meetings. So as a result it was really toothless from the start. The teeth have to come from a Cabinet department. It should be the State Department to take on the responsibility.

Senator KASSEBAUM. Well, as you say, the effectiveness is only really how much you are willing to recognize the importance of it and give it an effectiveness that will work. Otherwise, you could create all kinds of problems. Ms. Capps.

Ms. CAPPS. Just to add one more word on the importance of donor coordination. In the earlier comments that we sent both to the Hill and the administration, we called very strongly for the United States to exercise leadership in donor coordination and in generating commitment to certain global goals that have already been set by some recent international conferences such as the Conference on the Environment, Conference on Nutrition, the Conference on Children. There are out there what we see as a whole series of sustainable development goals. And we do believe it is very important for the United States to exercise leadership and to mobilize attention and commitment of other governments to these goals that have already been set.

Senator KASSEBAUM. Well, I guess it is not the goals so much that have troubled me in the past. Maybe it gets down to say function, population, and goals that are broadly agreed to. But then how are they being coordinated in the country which you are addressing? I think that is where sometimes it falls apart.

I do not know, Mr. Natsios, if you have any observations, because I do think in disaster assistance, certainly on the whole, it has worked fairly well in coordination.

Mr. NATSIOS. Let me add two comments, first on donor coordination and then on interdepartmental coordination.

We had an informal disaster managers group that the EEC formed with us 3 or 4 years ago. Julia Taft did the same thing before me. I presume it is still being done. It was an informal group of donor countries that did a lot of work in disaster response and complex emergencies. We would meet twice a year. It was very informal. We would invite the U.N. to come to observe, and some NGO's, but it was not a formal structure.

Now, the problem with that is if you do not do it formally then it can lapse in terms of its utility. We found it extraordinarily useful. I think it should be created as a subset, perhaps, of one of the other existing international coordination mechanisms, perhaps as a subcommittee. That has not been done yet, and it seems to me it needs to be done.

The second issue is within the government itself in terms of crisis management. My observation during the Bush administration and now during the Clinton administration is AID is brought to the NSC table, the deputies meetings on crises, only if they are forced to. AID does not have a right to sit down and explain the humanitarian part of what was happening.

I was called in during Somalia and I think we were called in during the Kurdish emergency in northern Iraq, but that was it. The rest of the time the State Department represented us which is a

problem, because they do not understand the emergency discipline, in my view, and tended to politicize it, not in a malicious way, they just do not understand what we do, why we do it, and how we do it.

I think a standing subcommittee should be created at the NSC on crisis management in these 20 complex emergencies, because a lot of things are going on now without coordination between DOD and OFDA Food for Peace, this new office of OTA, the Refugee Program Office, and the State Department. There is an informal network that works, but when senior decisions have to be made it is usually made without those offices being represented at the table in a serious way.

I proposed this a couple of other places. There is reluctance in letting AID sit at the deputies table at the NSC. They will not say that to you publicly, but there is a reluctance. It seems to me, given that we are experiencing the same pattern in all of these emergencies, we ought to develop in one group some expertise on how to respond, because we did learn a lot from each of these emergencies that is applicable in the next one. And that experience is not being shared in a coordinated senior level way.

Senator KASSEBAUM. I think that is a good point. Certainly, we have had some valuable experiences over the last 10 years that should give us some clue to how to address this.

Senator SARBANES. What would happen if AID were to chair those coordinating committees? That would certainly get you to the table, would it not? Would that work, or does it have to be in the NSC?

Mr. NATSIOS. In terms of the emergencies?

Senator SARBANES. Yes.

Mr. NATSIOS. I think it would have to be for the NSC because if AID calls the meeting no one will come. They do not have the clout or the authority within the system to do it, and it should be, it seems to me, through the mechanism of the NSC.

Senator KASSEBAUM. And the State Department, too, I assume.

Mr. NATSIOS. Oh, absolutely.

Senator KASSEBAUM. There has always been that uncertainty about the relationship between AID and State, and that has probably gotten a little cloudier.

Mr. NATSIOS. The State Department needs to be there, but AID needs to be there next to them and not be represented by them.

Senator KASSEBAUM. I have one other question. Perhaps it is to Ms. Capps and Mr. Natsios particularly. As you know, current law has had the NGO's contributing 20 percent from private resources. Under the administration's new proposal that requirement is dropped. As you may know, I have always felt this was an important part of sustaining the work of the nongovernmental organizations, that it works best where there is private support for that work. Otherwise, it almost works the same way as a contractor.

I think there is a unique difference between being just a contractor and a group that draws on private support. Both of you represent organizations that have had strong private support. What is your feeling about that provision? Ms. Capps?

Ms. CAPPS. InterAction and its staff certainly stand ready to work with you, Senator Kassebaum, in developing a responsible

definition of what involves privateness. We are certainly concerned that PVO's are and that they remain private and voluntary. And one of the ways of measuring that is by requiring a certain percentage of private funds.

Our position, however, is that that is only one of the ways of measuring privateness, and that in any definition of private and voluntary organizations there should also be other factors included, such as, for instance, the level of volunteerism in the organization, the nature of the board, the fact that the board is composed of people who volunteer their time and come out of the private community.

And so we would prefer to have further discussions with you about how to define private and voluntary.

Senator KASSEBAUM. Well, last year, we got into a discussion where I wanted even to raise it above 20 percent which obviously proved to be disconcerting to everybody. But to drop it entirely, it seems to me, may take it too far the other way. But I look forward to working with you.

Senator SARBANES. What is the problem if you have been doing it at 20 percent? I understand last year's issue, and Senator Kassebaum and I differed on it, which was to take the percentage even higher. And people said they are straining to meet what is required now, and so on and so forth. But given that this requirement is being met, as a general proposition, it means additional resources become available that would not otherwise be available through efforts in the private sector. What is the problem that is connected with it?

Of course, this bill drops it out altogether, as I understand it.

Mr. NATSIOS. Let me just add a couple of comments. First, in terms of World Vision's own position on this as it would affect our institution—80 percent of our money is privately raised. We are the inverse of most NGO's—20 percent comes from the government. So we are the inverse of what the law requires if you include my technical division of World Vision and World Vision U.S., the whole World Vision community in the United States.

The problem is a lot of smaller NGO's—because we are so large—we have 1.4 million contributors—we can sustain any percentage that you might want to require—the problem is there are 20 or 30 NGO's of modest size that would be wiped out if you raised the percentage beyond 20 percent.

Senator SARBANES. I am not suggesting that we raise it.

Senator KASSEBAUM. Neither am I.

Senator SARBANES. I am only asking now the question of continuing the 20-percent requirement.

Mr. NATSIOS. Well, the problem is for many NGO's the well is difficult to raise money right now. There has been, for some NGO's, either a flattening or a decline in contributions from the public. I think some of it has to do with the recession we are coming out of now. It may be the number of NGO's, who knows? But they do excellent work.

And what is increasingly happening for those NGO's that do not have a large base financially is you would be putting them at risk. And if we eliminated the requirement they would not be spending most of their time worrying about that one requirement. That is a

problem for some of them. They spend a lot of their management time focusing on that issue.

Senator SARBANES. That is helpful.

Senator KASSEBAUM. I am not going to ask any further questions, but would say to you, Mr. Bissell, I thought your observation on the democracy portion was an excellent observation. And with the other witnesses, we will have a chance to expand further in questioning. I just want to compliment you further on your observation.

Senator SARBANES. We want to thank this panel very much, not only for your presentations today but for the obvious effort and thought that has gone into your prepared statements which we will work through very carefully. Thank you very much for coming.

We will now turn to our second panel. We are happy to welcome Judith Bruce, who is a senior associate at the Population Council in New York; and Barbara Bramble of the National Wildlife Federation here, and director of the international programs of the National Wildlife Federation here in Washington.

We have chosen to examine these two issues, population and the environment, on one panel, partly, in all candor, because you have to figure out how to sort of group things together, but also it is some recognition that rapid population growth and environmental deterioration tend to go together and to exacerbate the problems of hunger, poverty, and disease that our sustainable development programs are designed to alleviate. So in fact, these topics are closely connected with each other and indeed with the issues that were examined on the first panel that we just heard from.

We are pleased to have you here. We will include your full statements in the record, and we would be happy to hear from you. Ms. Bruce, why do you not lead off; then we will go to Ms. Bramble.

STATEMENT OF JUDITH BRUCE, SENIOR ASSOCIATE, POPULATION COUNCIL, NEW YORK, NY

Ms. BRUCE. Thank you very much for giving me this opportunity. I am a senior associate at the Population Council, which is a non-profit international organization with 40 years of experience of working with developing country governments in the development of population and family planning programs. In preparation for my discussion today I did speak with a network of others interested in population issues. Though I speak for myself, I have taken counsel.

Whereas I am generally pleased with the integrative approach to the bill and its values, I find some aspects vague. I would like to see some more explicit language, direction, and clear administrative intent regarding the appropriate role and content of family planning services and the scope of population policy. I will address myself to these two policy points and end with some proposals on administrative arrangements, accountability, and budgetary guidelines.

Regarding the appropriate role and content of services, though reproductive health and choice are referred to in the text, these concepts should be more prominent and fully specified. Could the preeminence of "population stabilization" as a title without companion phrases like reproductive health and choice suggest we support services first because of their potential demographic impact

and only second to achieve individual welfare? It must be the reverse.

Over the last decade here and in the LDC's an energetic and ever-growing constituency of human rights and women's health advocates have emerged as potent new allies for family planning services, and, in fact, I would say that they are the strongest new advocates for these services that we have today in the world.

But they are proposing services of a new type. They propose meeting individuals' fertility and related reproductive health needs and shared male and female responsibility as the goals of service. They urge that long-neglected but closely linked reproductive health elements such as the diagnosis and treatment of STD's, postabortion care, and the extension of safe pregnancy termination where legal, should be added to the regular circle of care.

This initiative is invigorating our community and is widely accepted. It recasts contraceptive and family services from "asides" to valid and central parts of a broad development and health effort. It is this formulation rather than the population control, or even the gentler phrase, "population stabilization," that has broad appeal. This is really where the energy is. And this orientation is the most practical one for services.

The ministries of health and family planning and our other partners and LDC's should operate with no doubt, from our side, that the first responsibility and the purpose of our support is for service programs that meet clients needs for quality health care. Any confusion over their mandate or our interests increases the likelihood that targets, incentives, and demographically driven program measures will be imposed. This leads to confused priorities, poor services, a disappointed and dwindling clientele, and much of the bad feeling that has attended the word population in many places, and it is entirely unnecessary. Women want and need these services.

Donor performance measures have not helped. Even now, we know more about how many contraceptives were supplied than about what proportion of clients have met their reproductive goals successfully, and we know next to nothing about women's reproductive health status.

I should say here by way of optimism that desirable changes are underway. The Office of Population is convening an international meeting of several days at this moment with cooperating agencies to discuss a range of long-needed innovations: systematic efforts to improve the quality of care, how better to attend STD diagnosis and treatment, postabortion care, how to draw men in as partners. These initiatives are highly laudable and need undiluted support in the spirit, direction, and budgetary allocations of this bill.

However, this does not mean that I believe that population is not an important issue, just that it should not serve as a rubric under which services are offered. So my second point regards the scope of population policy. In a word, we must go beyond family planning. We cripple our effectiveness and mislead our LDC partners when population policy and family planning are used as synonyms. Ministries of planning, or whomever is most appropriately charged with considering the implications of rapid population growth for the development goals and social justice of their countries, deserve

to be well-advised and fairly advised as to what is reasonable to expect from family planning services alone.

The man or woman in charge need to know about the distinctive contribution good services can make to voluntary fertility decline. But he or she also needs to know that up to one-half to two-thirds of the needed fertility decline to reach population stabilization in some countries will require reducing people's, women's, reliance on high child numbers through specific human capital investments.

For example, in much of sub-Saharan Africa most individuals and couples still want and will feel "at risk" without five to six children. Clearly, governments who seek population stabilization cannot achieve it through services alone. Over the last 40 years, average fertility in the LDC's excluding China has declined from 6.2 to 4.5 children. But to get from 4.5 children to 2 children will require an entirely new set of strategies which include focused human capital investments.

The first decrement was easy. The second will be much more difficult. The \$2.6 billion reserved for sustainable development, regardless of how it is broken down into categories, is simply not enough. The work that needs to be done—this is brief litany—is increasing educational levels, especially among girls; improving child survival; providing women with social identities apart from motherhood and expanding their access to productive resources.

I am particularly concerned about girls and women ages 12 to 22 working legal and normative frameworks to more equitably locate the time and fiscal costs of children between men and women. Women and men have very different incentives to limit fertility and to invest in children.

In sum, this bill in its totality, not simply the section entitled "population stabilization," must send a clear signal to LDC partners through a breadth of diplomatic channels, bilateral, and multi-lateral agreements: Governments which are serious about voluntary fertility decline must vest responsibility and resources in the full spectrum of social and economic instrumentalities available.

I have made four suggestions in the back of my submitted testimony, if I could have just a moment to review those.

Senator SARBANES. Certainly. Why do you not give us those?

Ms. BRUCE. I suggest specifically if we are going to revivify our interest in population that we give attention to first—I know this is not a popular word—earmarking funds so that we can follow through on our commitments to our LDC partners to expand the availability of high quality family planning services and to incorporate the spirit of the international reproductive health initiative in and the values and practicality of family planning program design.

Under the umbrella of the currently named Office of Population we might reconsider that name. It might be more appropriately the Office of Family Planning and Reproductive Health we have a series of very strong programs which if they are permitted, can be strengthened even further. They are working on improving the quality of services and extending the scope of what is offered. I would hope within any earmark or designated funding line there

would be an explicit set of plans and budgetary commitments to our reproductive health initiative.

Second, I would hope that the population implications of all the development sectors should be taken into account in formulating policies and programs. When demographic goals are part of a country's policies, the full range of social and economic instrumentalities should be used to support voluntary fertility reduction. We may have an opportunity to work, for example, through the Bureau of Global Programs, Field Support, and Research Programs, to oversee efforts to realign not only our investments but perhaps to coordinate with other donors theirs.

Centrally funded and country portfolios should be reviewed and revised to favor investments that meet development goals while sustaining fertility decline. And some cases this does not mean using new money. It means using existing money better. What kind of education are we investing in? What do the productivity projects look like? What is the relative contribution to women's and men's income. Because sometimes I find we are giving with one hand, in the sense of offering services, but taking away by the fundamental design of the rest of our development dollars.

Third, I believe we should begin our new era with three new initiatives: (1) the allocation of at least a \$25 million research and demonstration fund over several years to integrate reproductive health elements into family planning programs—we need an R&D fund; (2) we need to review the population implications of our bilateral program in selected countries; and (3) we might consider leading an international effort to marshal increased resources for education, training, and the expansion of economic opportunities for girls and young women. Girls 12 to 22 are the pivotal generation in demographic change. We have to increase their choices and change their social and economic environment if we want to see delayed ages of marriage and a changed pace of childbearing.

Last, the United States should continue to exert leadership among donor nations through innovative thinking and effective communication about the scope of population policy and its willingness to commit its fair share of resources. Going back to the \$2.6 billion, this is a disappointing figure. I would hope it could be expanded, even if out of that \$585 million were committed for services, this is less than half of the way toward meeting the Amsterdam goal of \$1.4 billion committed to family planning by the year 2000.

Let me end there, and thank you.

[The prepared statement of Ms. Bruce follows:]

PREPARED STATEMENT OF MS. BRUCE

Mr. Chairman, Distinguished Members of the Committee: Thank you for the invitation to testify here today on the proposed framework for population-related activities in the proposed Peace, Prosperity, and Democracy Bill. My name is Judith Bruce and I am a Senior Associate at The Population Council. The Population Council is a nonprofit, nongovernmental research organization headquartered in New York and supporting a network of regional and country offices located throughout the globe. Part of the Council's mission is to undertake research in developing countries to evaluate the effectiveness of population, family planning and reproductive health services and policies as they seek to improve the health and well-being of current and future populations around the world and to help achieve an equitable, and sustainable balance between people and resources. In my testimony today, I will

draw on my own research and experience as well as the work performed by my colleagues since the Council was founded in 1952.

THE INTERCONNECTEDNESS OF RAPID POPULATION GROWTH AND HUMAN WELFARE

Rapid population growth in most developing country settings is understood to be of particularly urgent interest to policy makers and political leaders because of the ways in which it diminishes the present and future quality of life. It raises human welfare concerns at four levels of human experience: global resource sufficiency, national institutional capacity, the abilities of families to support their members, and the rights of individuals to make free and healthful choices about their reproduction. To respond to the urgency of the situation, a newly inclusive population policy should be developed and implemented through the proposed Peace, Prosperity and Democracy Act which responds to the social factors which motivate and propel population growth. Briefly, these factors are:

Unplanned and Unwanted Pregnancies.—About 100 million women have an unmet need for contraception. As a consequence, many women bear more children than they want. Approximately one in four births in the developing world (excluding China) is unwanted, and a larger proportion is unplanned. In addition an estimated 36 to 53 million abortions are performed each year—as many as 15 million of these are clandestine and unsafe. Most of the unintended pregnancies and unsafe abortions could be prevented if women were given greater control over their sexual and reproductive lives.

Desire for More Than Two Children.—Many individuals and couples continue to want large families, in part because of their fears about child mortality and their need for children to assist them in family enterprises and to support them in old age. In most of the developing world, desired fertility still exceeds two children, and in some areas such as sub-Saharan Africa, desired family size is typically above five children. The perception that sons are more economically valuable than daughters promotes high fertility and passes on gender inequality from generation to generation.

Pressures for Early Childbearing and a Young Age Structure to the Population.—Women in general, and young women in particular, are under pervasive pressures to fulfill societal expectations of appropriate feminine behaviors, especially with respect to their sexuality and fertility. This is a disguised form of coercion, as young women often exercise little choices with regard to sexual relations, marriage, and childbearing. The interrelated phenomena of a young age population structure and short intervals between generations are the key forces behind population momentum—the tendency of the population to increase for some time even after a two-child average is reached. Even if replacement level fertility were achieved in 1995, it is estimated that population momentum alone would account for up to half of the projected population growth in developing countries over the next century.

A BROAD POPULATION POLICY OF SYNERGISTICALLY LINKED ELEMENTS

These three factors—unwanted pregnancy, the desire for more than two children, and the pressures for early childbearing among a young population—work synergistically to create demographers' predictions that the current global population of 5.5 billion will exceed 9 billion by 2050 and, without action, could double well before 2100. In the past, however, population policy has been narrowly interpreted in donor and developing countries alike to mean only fertility reduction to be implemented solely through family planning programs. Over the last 40 years, the average family size in developing countries has declined from 6.2 to 4.5 children (excluding China); to reach the next decrement from 4.5 to two surviving children per couple will require focused human capital investments alongside of good services.

Thus while it is essential that we maintain and expand support for existing family planning and related reproductive health efforts, we must also intensify those social and economic programs that reduce the welfare and personal status risks of non-marriage, late marriage, delayed childbearing, or smaller families. A policy responsive to this breadth of social realities should comprise *three* central initiatives:

EXPANDING SERVICES THAT PROMOTE REPRODUCTIVE CHOICE AND BETTER HEALTH

Family planning services should be offered to all those who need and want them as a measure of basic rights, operating free of demographic objectives. Service programs should be allowed to do what they are best designed to do: assist individuals in meeting their own reproductive intentions in a healthful manner.

Despite the considerable progress made over the last several decades, the coverage and quality of family planning services is still less than satisfactory in many countries. In addition, there are compelling data to suggest that poor reproductive

health is more extensive than previously believed. At the very least, programs providing contraception or abortion services should upgrade their technical competence, observing basic infection prevention procedures and employing appropriate clinical techniques. Special attention is owed increasing program capacity to diagnosis and treat sexually transmitted diseases and reproductive tract infections, particularly where these conditions can be exacerbated by incorrect contraceptive care. Apart from these additions, family planning programs should be strengthened by:

- Expanding the choice of methods available (including safe pregnancy termination where legal).
- Improving the informational content and general quality of the client/provider exchange.
- Extending services and revising service concepts to reach under-served areas and involve new constituencies—especially men and the unmarried.

Creating Favorable Conditions for Smaller Families.—Affirmative social and economic policies can alter the costs and benefits of childrearing so that more parents will recognize the value of smaller families, while simultaneously increasing the human capital of the next generation. Four interventions would have the greatest impact:

- *Increase education levels, especially among girls.* Of all forms of investment which can affect fertility behavior, the education of girls stands out as the most consistent. Women who have completed seven years of school have on average three children less than their unschooled counterparts, according to recent United Nations studies. The observed reduction in fertility among these women is linked to delayed marriage, effective fertility regulation, more modern forms of investment in children, and place a higher value on girl children.
- *Improve child survival.* No country in the developing world has experienced a sustained fertility reduction while child mortality rates remained high. Improved child survival requires intensified attention to the treatment of childhood disease, immunization, and appropriate nutrition, and the provision of households with access to clean water and waste disposal.
- *Provide women with social identities apart from motherhood and with independent access to productive resources (e.g., land, credit, skill training).* Women who have earnings under their control negotiate more effectively with partners over sexuality and fertility matters and rely more on themselves and less on their children for security now and in old age. Women with secure livelihoods are likely both to desire fewer children and to invest more effectively in the ones they have.
- *Rework legal frameworks to provide more fairness in practice for women and children.* Effective population policy must use all available normative, judicial, programmatic, and economic measures to encourage a more equal sharing of time and economic costs of children between men and women. *A population policy with this set of values, though clearly pro-child, tends to reduce the demand for children to only those that can be effectively cared for by both parents.*

Taking Back Young Lives: Including Young Women in the Development Process.—Young women often exercise little choice as to whether or not to have sexual relations, when or whom to marry, and how and when to time first and subsequent births. Supportive program measures could improve the self-esteem of girls and reconfigure their social and livelihood prospects. We must reverse the neglect of young women by:

- Promoting socially acceptable and economically valued roles for them apart from sexual attractiveness, marriage, and frequent childbearing.
- Making young women the special focus of formal and non-formal education, community development and microenterprise programs.
- Providing information about their reproductive health and nutritional requirements and giving them access to fertility regulation and related health services.
- Changing in positive ways the perceptions among young men and women of each other, as well as their views of marriage and parental responsibility.

NEW ADMINISTRATIVE APPROACHES AND ACCOUNTABILITY

To fulfill these policy prescriptions we must retain many elements of the existing administrative arrangements as well as create new approaches and structures, and find the correct balance between categorical funding and the flexibility to explore new initiatives.

Earmarked funds should be available to follow through on our commitments to our LDC partners to expand the availability of high quality family planning services and to incorporate the spirit of the international repro-

ductive health initiative in the values and practicalities of family planning design.

Under the umbrella of the current Office of Population, we should continue our partnership with developing country governments to promote concrete improvements in the coverage, scope, and quality of family planning and related reproductive health services. Existing services would benefit from greatly strengthened reciprocal linkages between the family planning and health sectors. *The emerging commitment to a broader reproductive health approach requires the definition of explicit plans and budgetary commitments.* Finally, and of paramount importance, demographically driven performance criteria should be replaced by program evaluation measures that place the meeting of clients' fertility and health needs at their center.

The population implications of all of the development sectors should be taken into account in formulating policies and programs aimed at the developing countries and when demographic goals are part of policy, the full range of social and economic instrumentalities should be used to support voluntary fertility reduction.

The Bureau of Global Programs, Field Support, and Research should oversee efforts to realign social and economic investments to favor voluntary fertility decline. We must reflect a revived and expanded population policy both in language in programs; population policy and family planning should no longer be regarded as synonymous. Centrally funded and country portfolios should be reviewed and revised to favor investments that meet development goals, serve justice and gender equity considerations, and sustain fertility decline.

To signal a new era of concern with population, acknowledge the special place of women's social, economic, and reproductive health needs, and build a base of experience for future program expansion, the United States should undertake three new initiatives as part of a renewed population policy:

- *Allocate a \$25 million research and demonstration fund to integrate reproductive health elements into family planning programs.* This fund would support experimental efforts to ameliorate neglected reproductive health problems in the context of conventional family planning and MCH programs. Priorities could include the development of microbiocides and diagnostic, treatment, and service approaches for reproductive tract infections appropriate to developing country settings.
- *Review the population implications of our bilateral program in selected countries.* We should provide technical support to ambassadors and USAID directors and staff in reviewing and potentially revising major country portfolios. Let us begin with a few case studies of our overall investment in demographically significant countries.
- *Lead an international effort to marshal increased resources for education, training, and the expansion of economic opportunities for girls and young women.* Just as the international community mobilized to improve child survival rates in the late 1970s and into the 1980s, we must now combine forces to expand in and out of school educational opportunities for girls. Primary education is the first priority, but it will not reach girls and young women on the cusp of their childbearing and economically productive years. One effective way to reach these women is to expand resources for nongovernmental organizations, trusted in their communities to improve the status and broaden the personal horizons of young women.

The United States should exert leadership among donor nations through innovative thinking and effective communication about the scope of population policy and its willingness to commit its fair share of resources.

The vision of population policy herein advocated requires steady and ample funding and, most critically, a quantum leap in political will. For too long worthy programs have competed with each other for scarce resources. Though this agenda requires substantial resources, it is politically attractive and fully compatible with the values put forth in the Peace, Prosperity, and Democracy Bill: broadly based economic development, democracy, and global stewardship. The investments we propose include greater societal commitment to the planning of children and long-term investments in their capabilities. It calls for the elimination of gender inequalities in schooling, employment, and access to resources, with a special interest in the needs of young women. It requires expanded community and nongovernmental participation as a matter of basic strategy.

It is time to advocate without any ambiguity or timidity positive social investments which are good in themselves and have demonstrable fertility impact. Paramount among these investments are family planning/reproductive health programs. Thus, the designation of a mere 2.6 billion for sustainable development is most dis-

appointing. And, within that 2.6 billion, the 585 million for population stabilization, even if devoted solely to services, represents less than half way to meeting the Amsterdam (1989) goal of 1.4 billion for family planning by the year 2000. Whatever the individual biases of the speakers here today regarding the relative priority from parts of this program, our central task should not be to slice the existing resource pie into small and unduly compartmentalized pieces, but to make better sense of the whole and *to greatly enlarge it*. The industrialized nations now spend only 1.5 percent of foreign aid on population assistance. Our leadership is needed to expand that proportion and indeed, the very vision of population policy itself.

Thank you for the opportunity to appear before you today.

Senator SARBANES. Thank you. Ms. Bramble.

STATEMENT OF BARBARA BRAMBLE, DIRECTOR, INTERNATIONAL PROGRAMS, NATIONAL WILDLIFE FEDERATION, WASHINGTON, DC

Ms. BRAMBLE. Thank you, Mr. Chairman. Today, I am speaking also on behalf of the Sierra Club, Friends of the Earth, and National Audubon Society. Together with my organization we represent millions of people who are beginning to show that they are more likely to support international assistance now that it starts to look a lot more like what they are interested in, which has to do with sustainable development.

I would specifically like to associate our organizations with the comments and the written submission of InterAction. We helped in the drafting of that and have worked with all of the other groups that Ms. Capps represented today, and also to voice our support for the International Population Stabilization and Reproductive Health Act. My comments this morning probably would fit just as well into the previous panel because we now really all work on sustainable development, at least the organizations I am speaking for today, and we look at that as a tripartite concept which has to involve social equity as well as economic viability on top of our traditional concerns with ecological stability.

We would like to give credit to Administrator Brian Atwood and his team, who made a major effort to draft at least title I of the proposed bill so that it links environment and development in this well-worn phrase that we are using now called sustainable development. The consultation process, at least with groups in Washington, was pretty good. So I must say that has not been true with either beneficiary organizations or peoples in other countries, and while we know that is difficult I do not think it would be impossible given the numbers of people who come through Washington and the kinds of efforts that people at AID very well know how to make in the field.

There are a lot of different ways to critique this bill. You have heard a bunch of them this morning already, all the way from the lack of clear agency authorities or structures to implement the great policy language, to a lack of priorities; there is a long list of specific errors or omissions. Particularly I would mention the leaving out of the special case of indigenous peoples from the annual Country Human Rights Reports. We have enumerated a lot of these issues in our testimony. So has InterAction. But I would like to concentrate just on the underlying logic that we were looking for in the bill, and yet cannot find.

On the one hand, if you take a look at the overall bill and you think about the realities of the foreign operations budget, there is

a section, a chunk of this bill, that is labeled sustainable development. And most of that, if you look at the budget, goes to the multilateral development banks.

Now, I know that you particularly, Mr. Chairman, know that thousands of my colleagues, not just in this country but around the world, feel that that is a questionable assumption. Let us just say that until there is a lot more change at the multilateral banks we have our doubts that what they are funding is necessarily sustainable development. So what we are left with when you look at the bill versus the budget is maybe \$2 or \$3 billion out of \$20 billion or so for foreign operations that even tries to call itself sustainable development.

All the groups that I represent here today have millions of members and supporters, and we have been telling them about this new sustainable development proposal, except they are getting a little puzzled. What does the rest of the bill fund? Is it unsustainable development? And we are hard pressed to know how to answer.

Let me just give you an example of the way this lack of logic plays out. Take the Trade and Development Agency. This is the Agency that "promotes U.S. private sector participation." In developing and middle-income countries last fall we proposed some minor amendments to the section 5201 which covers this Agency. We were essentially asking that they should be mandated to do their work consistent with the goals of sustainable development. Now, those suggestions were ignored, and there is still not one word in the whole section on the TDA even to suggest that it would be useful to promote U.S. skills in environmental impact studies, a field in which our experts excel in the world.

But it is really worse than that. I spent a few hours a couple of weeks ago with officials of the Export-Import Bank who are trying to get their bank out of the business of financing environmental atrocities abroad. Some of their projects really are foreign policy embarrassments. But their problem is they committed the project often too late to influence it, only when certain machinery is being purchased. But the assessment of alternatives may have been done badly or not at all. So their choice may come down to either helping U.S. workers get the jobs in a damaging project, perhaps with worldwide consequences, or letting the jobs go to Germany.

But over in another department is the TDA, which is in on the beginning of projects. And they could help planners in the developing and middle-income countries do good environmental studies, alternative studies, and assess the sustainability of different options. They could, in fact, help promote one of the technical areas where U.S. experts lead the world, energy efficiency investments, and the Export-Import Bank could then fund these investments. But is that a goal for the trade and development agency? No. Unfortunately, it is not even mentioned. In this day and age there is not enough money to waste in such a silly way.

Well, this applies to the whole rest of our foreign operations. There are better and worse ways to fund democracy building, refugee assistance, even peacekeeping, and to promote or at least not to inhibit sustainable development. Our Government should have the task of finding and favoring those sustainable methods, not just

shoveling money out the door. There really is not that much money available to shovel any more, so we cannot afford to waste it.

Thank you very much.

[The prepared statement of Ms. Bramble follows:]

PREPARED STATEMENT OF MS. BRAMBLE

INTRODUCTION

Good morning, Mr. Chairman, I am the Director of International Programs at the National Wildlife Federation, which is the nation's largest non-profit environmental organization. Today I am also speaking on behalf of Friends of the Earth, the National Audubon Society and the Sierra Club. Together these organizations represent millions of Americans who care about the future of the earth's environment. We appreciate the opportunity to testify before the Senate Subcommittee on International Economic Policy, Trade, Oceans and Environment, about the proposed "Peace, Prosperity and Democracy Act." We believe that the proposed bill has made a number of important strides in articulating a more sensible international assistance policy for the United States, but still needs to be improved in several fundamental respects.

I. Foreign Assistance is in the U.S. national interest if it is based upon the critical imperative of the late 20th century—fostering economically, socially and ecologically sustainable development.

The first question we should address today is "why is foreign assistance in the U.S. national interest?" The groups I am representing base their support for international assistance upon the mounting evidence of environmental degradation around the world, and the still growing numbers of poor people whose blighted hopes form an undercurrent of instability in the relations among governments and peoples. There can be no doubt that we, as a nation committed to the principles of democracy and equal opportunity, and rich beyond the dreams of most people on earth, have a moral obligation to help improve the quality of life of people in other nations. But if we fail to honor this moral obligation, we will face the purely practical problems of arming ourselves and paying the far higher bills for the defense of our privileges, and finding—at great cost to ourselves and to others—methods of combating global climate change, loss of biological diversity and pollution.

That then leads to the question of what kind of international assistance has a chance of being effective in addressing the staggering global proportions of poverty and environmental degradation. We believe the principles of environmentally, socially and economically sustainable development, as worked out over the past decade, and as incorporated in portions of this bill, hold out more promise of hope than we have seen in decades.

II. The Clinton Administration's efforts to reform U.S. foreign assistance programs have achieved a number of successes, both by including needed reforms in the draft foreign aid legislation and by consulting extensively with Non-Governmental Organizations (NGOs).

The preparation of the "Peace, Prosperity and Democracy Act of 1994" included a salutary consultative process with NGOs, and the final draft of the legislation incorporates many NGO concerns. The bill recognizes the importance of sustainable development, highlighting both environment and population as priorities. The recognition of global environmental degradation and rapid population growth as threats to global security and well-being demonstrates a marked advance in U.S. foreign assistance policy.

Development assistance funds are "walled off;" we are very pleased that development assistance has been protected in the Administration's bill. Considering that a comparatively small amount of funding goes for sustainable development projects—about \$2 billion—we cannot afford to take any of these precious funds and use them to meet other, shorter-term goals. Similarly, requiring a separate military assistance authorization for programs administered by the Department of Defense is a positive step.

The bill now recognizes the importance of people-to-people participatory development, especially for women and indigenous groups, and highlights the importance of public access to information about development projects and programs. Also, the bill acknowledges the need for transparency and accountability from the International Financial Institutions (IFIs).

Environmental impact assessments are required for all sustainable development programs, as well as for the Overseas Private Investment Corporation. Environ-

mental impact statements are a useful tool for ensuring that development is indeed sustainable and does not significantly damage the environment. But, in spite of these advances, many problems remain.

III. Sustainable development should be the overall goal of international operations, not just the operative framework for USAID programs to assist the poor which are currently included under Title I.

Sustainability is a three-legged stool; it requires economic viability, ecological stability and social equity. None of the three can be left out or development will fail.

A. In the post-Cold War and post-Earth Summit world, all nations have the obligation to promote Agenda 21 and sustainable development, at home and abroad. That means our export financing, trade and development funding, food export promotion, aid to "countries in transition," refugee assistance and peacekeeping should all be screened to determine if there are better ways to accomplish these goals, so as to promote sustainable development, or at least to be neutral in effect.

B. Environmental impact studies should be required for all U.S. international operations that could have a significant environmental impact. Environmental impact assessment is one way to efficiently implement the screening of international operations. Procedures can be developed to identify those projects which are likely to cause significant impact on human development and the natural environment, so that full-blown environmental impact studies are carried out only when needed; the procedures would also exempt emergency situations and those where compelling national security objectives would be compromised by implementing a brief environmental assessment process. (See annex attached.) Allowing for these exceptions, environmental assessments should be required for all programs authorized under the bill, such as the Trade and Development Agency, and "building democracy." The bill should also recommend that environmental impact studies be required for those programs authorized under other committee jurisdiction, such as P.L. 480, and the Export-Import Bank, which are mentioned in policy statements in the bill.

C. The bill should link trade with sustainable development; it must recognize that completely free trade does not exist, that markets do not function flawlessly, and that without some compensatory rules, trade can threaten sustainable development. In fact, trade experts no longer use the simplistic term "free trade;" instead, "liberalized trade" more accurately reflects their goals.

In order for really free trade to exist, certain pre-conditions would be essential—products would have to be priced to include their full environmental and social costs, consumers would need to have full and open access to information, and labor rights would have to be enforced. As these conditions are inordinately difficult and almost never met, the U.S. must accept the need for some compensatory rules to reduce the potentially damaging environmental and social effects of unregulated trade. In the aftermath of the New Year's revolt by indigenous peoples in southern Mexico, these safeguards can only be seen as all the more timely.

As demonstrated by the North American Free Trade Agreement (NAFTA), the relationship between trade and the global environment must be taken into account. The NAFTA calls for the United States, Canada and Mexico to conduct trade "in a manner consistent with environmental protection and conservation," and so as to "promote sustainable development." This bill should not be an old-fashioned commitment to "free trade," as it appears in Sec. 5001. Above all, the Committee should keep in mind that trade is a means to achieving improved quality of life for our citizens, not an econometric end in itself.

Therefore the bill must contain a clear statement that trade rules must be reformed so as to promote sustainable development.

D. Compare the provisions in the bill referring to OPIC with those for the Trade and Development Agency: TDA is still in the dark ages. Proposed Section 5201 states that "the purpose of the Trade and Development Agency is to promote United States private sector participation in developing and middle-income countries." Despite our earlier recommendation to remedy this glaring omission, there is still not one word in the section about TDA's environmental or sustainable development responsibilities. There is not even a suggestion that it would be a good idea for TDA to promote U.S. skills in environmental impact studies, or energy efficiency improvements, fields in which U.S. experts excel in the world.

The TDA assists with feasibility studies and other early assessments of projects. Thus its work could help assure that projects are given thorough study, and that reasonable alternatives are seriously considered, when it is still early enough to ensure that the most sustainable options are selected. This would be of immense help to such agencies as the Export-Import Bank and OPIC, which come into the process much later and often face badly-prepared projects when it is too late to make fun-

damental changes. Often ExIm and OPIC only have a choice between helping U.S. workers gain jobs in bad projects or letting the jobs go to Germany or Japan. Our nation's scarce export promotion dollars are too precious to waste on projects that make the world's environmental problems worse; they should be used as efficiently as possible, to both promote employment here at home and aid investments in sustainable development.

TDA must be given a mandate to fund studies and promote investments which further sustainable development.

We have attached as an annex proposed legislative language to address the changes we suggest in Part III.

IV. Sustainable development must receive a much greater funding priority in U.S. foreign assistance.

While sustainable development is considered an objective of this international engagement legislation—a move which we wholly applaud—the goals of sustainability cannot be realized without the needed financial resources. Despite the Administration's hortatory emphasis on sustainable development, funding for development assistance continues to be one of the smallest parts of the function 150 account. Recent attempts in Congress to cut the deficit have disproportionately targeted AID; the Penny-Kasich amendment would have slashed development assistance by over 25 percent. While this committee does not appropriate, you can provide a clear directive as to how funds are allocated.

Global challenges affecting the very basis of human lives present perhaps the gravest long-term threat to our nation's future. Environmental degradation, rapid population growth, poverty and hunger present the biggest obstacles to improved quality of life for billions of people, and yet these programs continue to receive by far the smallest proportion of funds. We urge you to seriously reconsider international funding allocations within this account and increase significantly the assistance for sustainable development programs, including population, environment, education—especially of women and girls—health and nutrition, micro-enterprise and sustainable agriculture. Along these lines, given the end of the Cold War, we hope that military assistance continues to decline and would urge the reallocation of these funds to sustainable development.

We have difficulty explaining to the millions of members of the National Wildlife Federation, National Audubon Society, Friends of the Earth and Sierra Club that only \$3 billion or so the U.S. international affairs budget goes to make the planet a more economically, environmentally and socially sustainable place, (i.e. "sustainable development") but that the majority of the funding goes to something else—what should we call it? "Unsustainable development?"

V. Other Problems.

A. The bill lacks clear objectives for all programs, and the extremely general language, with essentially no structure for implementation, is a cause for concern. Many of the programs included in the bill are not clearly delineated in terms of authority and guidelines for implementation. The bill as a whole should reflect the level of specificity of the language used in Title V, Chapter 1—Overseas Private Investment Corporation. For instance, when Title V, Chapter 2—Trade and Development Agency is juxtaposed with Title V, Chapter 1, it resembles more a policy statement than a law. This is true of much of the bill.

B. The role of USAID is still not clearly defined in the bill. While sustainable development programs are highlighted in Title I, the agency which will carry out these programs is not mentioned—the U.S. Agency for International Development. This should be remedied. Also, we hoped that the legislation will authorize USAID to carry out its work in sustainable development without excessive complications due to shorter term political objectives on the part of the Department of State.

C. Population funding is not clearly defined and may be used for other related areas. While we applaud the way the bill highlights population, and recognizes the interaction among relevant factors that impact on fertility, we have some concerns about how population funds will be spent. The groups I represent today, and other population advocates, have encouraged policymakers to broaden their understanding of population to go beyond family planning, because issues such as women's economic status, literacy and child survival impact decisions about family size. A focus on these issues, and how they relate to family planning and reproductive health, is all to the good.

However, as written, Section 1102(b)(4)(B) implies that child survival programs could be funded with family planning/reproductive health funds. While these programs should be intimately coordinated, it would greatly weaken critical population programs to take scarce funds from one program, and use them for another. We are

also very concerned that funding for related programs such as women's literacy will be drawn from the limited population budget. It is important to note that the worldwide need for family planning funding has been calculated by the United Nations to be at least \$9 billion by the year 2000, and the U.S. is only about halfway to meeting our fair share of this budget. Therefore, this kind of fungibility between programs does not make sense for AID. Both voluntary family planning and girls' education need to be adequately funded.

D. The bill dances around the relationship between sustainable development and the IFIs. There is mention of the need for transparency and accountability, but nothing to encourage the IFIs to adopt sustainable development as a goal of revamped structural adjustment policies. The classical structural adjustment model prescribed by the IFIs for the debtor nations of the developing world contributed to the 1980s "lost decade of development." Those structural adjustment programs have been devastating for the world's poor, and have caused a setback in development, and should therefore not be given an endorsement in the bill. Obviously adjustment is needed in the economies of most countries, but must be carried out with studied care to prevent disproportionate harm to the poor and the environment. This bill should make it clear that it is U.S. policy to promote a form of adjustment that does not hinder sustainable development.

In addition, the bill should acknowledge more than 10 years of hearings and investigations by several committees of the Congress, including your own, Mr. Chairman, which found the environmental and social performance of the IFIs to be not only inadequate, but at variance with U.S. bilateral policies. The bill should make it clear that while some reforms have been made by some of the IFIs, further changes are required, in both structure and operations, so that their activities promote sustainable development. For example, there is still little transparency, accountability or public participation by affected people in their operations. There is strong evidence that the pressure to lend, and to move money as fast as possible, has seriously eroded project quality. In addition, the IFIs are still funding large-scale, expensive infrastructure projects, and giving adequate attention to cost-effective community-based investments in safe drinking water supplies, sanitation, water conservation, energy efficiency and renewable sources of energy supply. These decisions have serious negative impacts on the health of local people and the economies of the borrowing countries.

The language of 22 U.S.C.A. Sections 262m and 262m-1 is a much more appropriate and useful description of the status of the IFIs than the proposed Section 1301, and it comports better with U.S. policy of the last few years. The existing language also makes clear that the Secretaries of Treasury and State and the Administrator of USAID will cooperate in promoting reforms of the IFIs. We are not aware of any intention to repeal those sections. It would make more sense to keep these provisions of current law and delete the brief and misleading policy language that is proposed in the new bill.

E. The Export-Import Bank section, like that of the IFIs, does not advance current U.S. policy and should be improved or deleted. Section 5302 states that the programs of the Export-Import Bank "can complement sustainable development programs." There are two problems with this statement: first it assumes, like the rest of the bill, that sustainable development is only for the poor, implying that what ExIm does is "real business." This is exactly wrong. *Sustainable development is the business of every agency and everybody.* So the goal of the Export-Import Bank must be to support sustainable development, both in the U.S. and abroad, through its export credit activities.

Second, even if sustainable development were only for the poor, then the bill should state that ExIm's programs "shall" or at least "should" complement them. Why use the word "can"? The Bank is currently in the process of re-thinking its procedures for screening environmentally and socially destructive projects. The least this bill could do is to encourage the Bank to rethink how it makes lending decisions, so that its funds are directed to projects that serve the long-term best interests of this country, as well as support domestic employment.

F. Indigenous, meaning "tribal," peoples lose ground in this bill.

1. The language of the bill is completely confused on the meaning of the word "indigenous." The term "indigenous" in this context is supposed to indicate native, tribal peoples, who are usually but not always minorities, but who are almost always specifically discriminated against, even by other poor peasant populations. They definitely *do not* consider themselves just another type of non-governmental organization. But in this bill, in several places the word is clearly and mistakenly used to mean "local" (see Sec. 1102 (c)(1)(C) "indigenous local organizations"; Sec. 1103 (a)(3) "indigenous university systems"; and Sec. 7302(c) (2) "indigenous nongovern-

mental organizations.") Sometimes it's just plain unclear what it means (see Sec. 1 102(c)(1)(B) "local and indigenous women's groups"; is this referring to groups of non-tribal and tribal women?)

Apparently, the drafters were trying to accommodate the key point, that they had heard from somewhere, that for development to be sustainable it must be carried out in consultation with local people, but they didn't know what words to use. This must be fixed, and all it needs is a simple drafting change to the effect of "consulting with indigenous peoples and local nongovernmental organizations."

2. But we take this error more seriously when we see it combined with the deletion of the special reference to indigenous peoples that exists in the current law requiring preparation of the State Department annual country reports on human rights (the Cranston Amendment). (Compare the language of P.L. 102-391 [H.R. 5368] to that of Sec. 7302(d) in the current proposal). Indigenous peoples suffer disproportionately from human rights violations, and are not infrequently subject to mistreatment that amounts to genocide. (See this year's country report on Guatemala). Section 7302(d), the annual country report requirement, must include the following language:

"* * * including coerced abortion and involuntary sterilization, as well as the political, social and economic rights of indigenous peoples, including their participation in their countries' political processes, the safeguarding of their cultural traditions, and their access to land and natural resources."

G. The "Early Project Notification System" used by the U.S. Government to detect potentially damaging projects funded by the International Financial Institutions, should be renewed and strengthened by the bill. AID, in cooperation with the U.S. Treasury Department, has established a system of tracking proposed IFI projects through the AID missions and U.S. embassies located in the developing world. The Early Project Notification System, often referred to as the "Early Warning System," was formally established by the U.S. Congress in 1987 to provide information about environmental and social impacts of a whole range of proposed projects in advance of the loans coming to the IFI board for approval. We have seen the value of this process, and we do not want to see it eliminated. But we are sympathetic with USAID's desire to use staff time efficiently, and to concentrate on a smaller list of high priority IFI problems. We understand that USAID is in the process of developing an "environmental action agenda" to identify priorities for use in fulfilling its monitoring function. To be effective, this work would have to involve the field missions, several USAID technical offices, the Global Bureau and policy and political level staff, and be carried out in consultation with NGOs and the Congress. If taken seriously, and given enough staff resources to do a good job, this work could substantially upgrade the capability of the U.S. government to leverage the IFIs toward our nation's sustainable development goals. But while we are optimistic, we are not convinced that elimination of the "early warning" list will result in the hoped-for increased USAID emphasis on leveraging reforms at the IFIs. Therefore, we urge the Committee to work with USAID in crafting bill language that commits AID to a strong but reasonable effort in this area.

H. In terms of humanitarian relief, the bill still needs to emphasize disaster prevention, not just disaster relief. The bill does not recognize the relationship between disaster prevention, disaster relief, and an appropriate follow-up to prevent a recurrence; emphasis is placed squarely on relief, with no attention at all given to disaster prevention or follow-up. The bill should recognize that promoting sustainable development and decreasing environmental degradation are means for preventing or mitigating humanitarian crises. The bill should also emphasize other disaster prevention measures, such as strengthening local capacity to confront the underlying causes of these calamities.

I. The provisions of the Development Fund for Africa (DFA) in the bill are weaker than current law. Along with the African Famine Relief and Recovery Act, the existing DFA law provides people-centered assistance to Sub-Saharan Africa and outlines as critical priorities sustainable agricultural production and natural resources management. Current law also wisely requires AID to establish an "Africa Fund" for three critical needs: maintaining and restoring the renewable natural resource base; voluntary family planning services; and improving health conditions. Also, the current law contains language that *requires* local participation and *the participation of African women*, not simply that they be "taken into account" as this bill states. We urge the committee to retain the programmatic provisions of the DFA as it is written under current law. We also recommend that the separate authorization for Africa be maintained.

[The annex referred to may be found in committee files.]

Senator SARBANES. Thank you very much. I would like to ask a simple question about the Amsterdam goal, Ms. Bruce, that you made reference to. Could you tell us a bit about that?

Ms. BRUCE. Well, my understanding is there was a donor's meeting in 1989 to try to mobilize international resources in the area of population assistance. The notion was that the United States would try to raise its contribution up to \$1.4 billion—I think that is the correct number—by the year 2000.

Senator SARBANES. But whose judgment was that? I guess what I am searching for is this: We get presented a goal, this \$1.4 billion, and I am trying to find out what the basis for it is. Who agreed to such a goal, because now we are told you really are falling far short of the Amsterdam goal. Did we ever agree to the Amsterdam goal?

Ms. BRAMBLE. Can I help, Senator?

Senator SARBANES. Yes, certainly.

Ms. BRAMBLE. My understanding is that the donor's meeting was a bit more than that. It included a number of experts from around the world and the calculations were presented there of expected population growth over the next decades and the percentage of contraceptive use that would need to be attained in order to stabilize population by certain dates, and they gave different scenarios.

I am not going to get the numbers exactly right, but something like 70 percent of families within a certain age group need to be actually using contraceptives according to some fairly sophisticated calculations in order to reach numerical goals which will lead to stabilization within a period of years, and it is a rather long period of years. This is a very sophisticated analysis that was done.

It was a meeting of experts, not an international negotiation, so these presentations were made, and the groups there calculated what it would cost to meet that contraceptive use, what would be the fair share of developing countries themselves from their internal financing. What was left over became the international assistance burden. Then, that was allocated amongst different countries along a fairly normal U.N. sharing arrangement which I am not sure of, but I think the United States is taking 10 percent. So that is even low compared to some of our other normal funding agreements. But it was not an official negotiation. It was a meeting that yielded a rational answer to have different parties, both the developing countries themselves and the international community, take up this calculated need.

At that point, what countries wish to do about it is, of course, up to them. But we are urging that it is a sensible and rational approach. It, as far as I understand it, was not a monetary commitment.

Ms. BRUCE. The documents that are being prepared for Cairo have used it pretty much as a guideline right in the preamble for what they are hoping the international community can do.

Senator SARBANES. I want to ask a question, Ms. Bramble, about the endowment authorities that are in this legislation. Now, you would get a lump sum grant, you would place it into an interest-bearing account, is that right?

[Ms. Bramble nods affirmatively.]

Senator SARBANES. And then you would fund projects off the interest on the account?

Ms. BRAMBLE. That is basically correct. Are you speaking of the endowments in the national funds in the particular countries?

Senator SARBANES. For the environmental purposes, the so-called endowment authorities.

Ms. BRAMBLE. I want to make sure I am talking about the same section that you are. The one that I am interested in is the one that allows funds from AID to make contributions to national funds. Is that the right thing? Do you know what section we are talking about?

Senator KASSEBAUM. Any NGO that has a national endowment fund can put AID moneys into that fund.

Ms. BRAMBLE. Into that one, right. Exactly.

Senator SARBANES. So AID is giving you a capital grant, is that right?

Ms. BRAMBLE. In our view, they are not giving it to us, they are giving it to a foundation-like entity which begins to operate and teach how one operates such an entity in countries where that is quite novel. Where it has been done, several places in Latin America and the Philippines, it has been immensely successful. AID has contributed to the one in the Philippines, and debt relief machinations have contributed to the ones in Latin America.

What is the outcome is that people who are not used to handling money, making their own decisions, having to operate with rules of transparency, accountability, and making decisions about priorities, are put in the position of learning how to do all that with fairly small and undamaging amounts of money.

We think that if the rules, as we understand them from the ones in Latin America and the one in the Philippines, promote responsibility among local nongovernmental organizations and are going to be very useful because they will attract funds from other sources. The AID money that began the national endowment in the Philippines has been only the first of many other placements of funds into that endowment which is called the Foundation for the Philippines Environment. And they are getting more and more donations from other places and are looking for the potential debt-for-nature swaps. For instance, to yield funds into these types of arrangements.

Senator SARBANES. You spoke of accountability, but how do you have accountability to the Congress for the use of these funds?

Ms. BRAMBLE. I think the clearest way to do that is for the Congress to set the rules which will operate for all of the foundations. It is going to be an endowment. The ones we have seen have abroad. It operates like a foundation board in the United States.

We in the public and you in the Congress do not decide for the Rockefeller Foundation what kinds of projects they are going to use, but you do allow people to make donations into those kinds of organizations and get a tax deduction for them. So in a sense, you are promoting public—originally private but then public—money to go into foundations. Why is that OK? It is because the foundation has rules under which it must operate and it has to report back to the IRS, and in some cases to the Congress, on a whole series

of things. And trying to teach that responsibility is one of the best things about this.

Senator SARBANES. But the analogy does not quite work because we do not make a direct taxpayer grant to the Rockefeller Foundation.

Ms. BRAMBLE. Of course not.

Senator SARBANES. We do not tax money from people and then appropriate it to the Rockefeller Foundation.

Ms. BRAMBLE. No, but you do encourage people to give money to certain kinds of foundations and to charities that do essentially the same thing.

Senator SARBANES. Of course, we do that now overseas as well.

Ms. BRAMBLE. Excuse me?

Senator SARBANES. We do that now overseas as well. People can take, in many instances, a tax deduction for contributions which they make.

Ms. BRAMBLE. And the organization then might spend that money overseas.

Senator SARBANES. Right.

Ms. BRAMBLE. But that does not help the local groups learn how to match the money unless the responsibility devolves onto them. What we think is the most innovative thing about this is that it takes relatively small amounts of money, which could be seen as risky if they were large, and trains people how to use them while they are still small.

One of the things that we have suggested about the rules that the Congress could set is that the smaller the grantmaking authority that this foundation might have, the easier—or let us say the least specific redtape hoops would have to be gone through. But if there are larger and larger grants there need to be more and more redtape hoops, reporting back to AID on any grants over \$50,000, for example, or reporting and having AID report those directly to you if it got over another certain large amount.

So it balances the risk against the possibility of allowing people to learn how to manage small amounts of money in an accountable and transparent way. If there is the need for regular accounting from certified public accountants, that is important. There would be rules for having people rotate off these boards so that the notion of being in responsibility and leaving again becomes normal, the responsibility for having open meetings, annual reports on all the grants made, and conflict of interest rules. Also, no grants could be made to the institution that one is associated with and the person who is on the board would not be able to make any decisions or votes about grants to the institution they came from. These are a whole lot of things that are fairly normal conflict of interest rules here, but trust among people in many other countries is not quite that simple. And we have found these endowments, the ones we have seen so far, to be remarkably helpful in having them grow.

Senator SARBANES. Thank you. Senator Kassebaum?

Senator KASSEBAUM. Ms. Bruce, I would like to ask you about whether the Population Council has done any real, indepth analysis of any of the AID population programs and moneys for the past several years, and the effectiveness of the programs that have been undertaken?

Ms. BRUCE. Well, we have undertaken in partnership with AID, in other words with AID support, and in partnership with the programs under study 10 complete, and now almost 15 of we call situation analyses. These are rapid appraisals of the effectiveness of service delivery.

And they differ from other kinds of appraisals because they do not just count your inputs, the money you put in, how much you cared about it, how many people you trained. It actually looks at the client-provider transaction and finds out what happens to people in services.

And what we have found—do you want me to go on? I suppose you want some of the punch lines. What we have found is there are areas I think where we have made tremendous gains. For example, there are in most places a number of methods available, but interestingly there are usually more methods available than individual clients are told about.

There is still a problem of provider biases or biases because of our own evaluation measures, and this is an area where we have problem, to provider-dependent or long-acting methods. So a woman might come in and there might be four different contraceptives available and she might be told about two. That kind of finding is very consistent.

So you will go from there being good supplies available yet the client-provider transaction being very incomplete as to the information the woman gets about what are her choices, what are the side effects, what she should do if she has a problem. And by the time you get down to the proportion of clients who have received appropriate information and technical care, it might be 20–25 percent in the worst programs. And when I say that I mean programs where the managers themselves would tell you that like, for instance, in Tanzania the Minister of Health will say this.

Now, these reviews are very useful because they are management benchmarks from which we can work. And so we undertake them because there is a willingness now to work through each of the problems identified and make them better.

And I think the good news is that without exception the managers are happy to have this information, the providers are eager to have it. The people who enter this field do so because they want to help people. If we can help them identify the problems, they want to change. And some of the problems we identify, of course, are resource limits, just straight resource limits, not enough contraceptives, and so forth.

Senator KASSEBAUM. But have you not found, I would think, that when providers presented several options, there is some significant cultural sensitivities that come into play?

Ms. BRUCE. From the provider's view? Yes, in most places there is an inhibition about—

Senator KASSEBAUM. Or the clients.

Ms. BRUCE. Yes. There are often biases about serving the unmarried. There are often biases about—even though there are no rules or laws, even serving women with too few children. You know, it may be the provider's view that a woman has too few children and she should really have more, and that accounts for, among other things, the very poor referral links between maternal and child

health services and family planning services which is something I hope we could ameliorate.

Senator KASSEBAUM. In your studies, country specific, have you noticed a decline in population growth?

Ms. BRUCE. There is certainly lots of good news to report in the sense that there is increasing contraceptive prevalence, and I think services are getting better. But what I hope my remarks suggested is that if we make it seem as if meeting the unmet need for family planning alone is going to bring about population stabilization, many countries are going to be deeply disappointed.

And what happens when we limit our discussion to that paradigm is that when countries do not get where they thought they would go through services, and they do not have any other language. They do not say, well, maybe we should invest more in the education of girls, or maybe we should think about what happens to the girls after primary school education. They can start imposing pressures on providers and targets in countries which up to then have functioned quite well. They suddenly have performance targets placed on willing providers, and it begins to clog what has been an effective and fair client-provider relationship.

Senator KASSEBAUM. Well, I think that is a good point that you made in your statement about there being other aspects of this that have to be taken into consideration.

Senator SARBANES. Thank you. Senator Jeffords.

Senator JEFFORDS. Thank you. Let me ask some questions about where do we go from here? Certainly I think we all agree that population growth is the most critical issue as far as the environment is concerned. Expanding populations create some problems. Ninety percent of the growth is in the developing nations, and combined with that are the problems of ethnic, cultural, and religious difficulties.

How do we try to cope with that in our aid programs to affect population growth which is obviously the biggest part of the problem?

Ms. BRUCE. Well, I think dialog, bringing this to the table constantly is important. I just returned from Cairo, where I sat with 70 individuals, mainly women from Arab countries. I have worked in Arab world for the last 20 years, and there is even in those environments where we hear so much about religious opposition—tremendous interest and readiness particularly among women's and the human rights constituencies to get services, for example.

My suggestion would be that we in a few countries—maybe a few countries we specially identify—look through the entire range of our investments with those countries and see whether we are making the best use of our funds. What are we doing in agriculture? What are we doing in education? Are we increasing the demand for child labor which increases fertility demands and pressures on women at the same time we are offering family planning services?

When we come to talk about population, let us talk about population and not just family planning. Let us make people see this as part of a broad developmental effort. And I am one for beginning small, just because I think we have a learning process ahead of us.

But I would say that if we picked a few countries we felt we could really work effectively through the Ambassador, where we

have good relationships, aid missions are ready, we could learn a lot.

And I think in the language we use it is really very important, when we talk about population policy, broadly this is an issue of the balance of people and resources—and not immediately jump into a discussion of family planning. This raises distrust, and I honestly think that we should think about renaming some of the things we do and actually have initiative called family planning and reproductive health, and use the population in other places that also belong, such as broad-based economic development.

Finally, our failure so far to really highlight the role of women is a terrible problem. We have to pull out, wherever we can, efforts we can make to increase women's access to and control of resources, and to increase women's educational levels. The most recent report from the U.N., which was just released a few days ago, shows an even stronger relationship than we had ever seen between women's education and fertility, and it is synergistically linked to the level of development.

In those countries where you are beginning to have some real economic growth, you can have a gap as many as four children between women with no education and women with 10 years of education. In countries with less active development paths the difference between those with no education and those with 10 years of schooling is only two. So, synergistically linked—that is exactly the phrase.

I also would hope that we can educate ourselves broadly. We do a lot of communication through our NGO's, but through the people in the State Departments or USAID and so forth, that we really make population a big, central subject of development and not solely connected to this notion of birth control, and we will have allies.

Ms. BRAMBLE. May I add one point to that? I feel compelled to say this, even though your committee does not have jurisdiction over it. But as you all know, the driving force for most changes in the world right now really comes from the United States. Everybody in the world wants to do what we do and have what we have.

And the single most important thing I think that would change how a lot of people feel about the population question in other countries is if they saw us taking quite seriously the equation between resource use and population.

If we really thought that an additional person had a major resource implication for the world, we would take a look at where people use more resources, and that is in the United States, in Europe, and Japan. We are the people with the problem, not the people who use almost nothing in their entire lives.

So, to me we have a kind of deal to make with the rest of the world which is we will try to ameliorate our gross waste of resources in this country and come something toward a fair—what we call an environmental footprint that our country places on the world, if they will address the part that is their fair share.

But it is really ridiculous and extremely hard for me to make sound population arguments, resource population arguments, to people who use one-thirtieth of the energy that any one person here does. You can talk about family planning because women want that, and women want to make progress in their lives. But

for population we have got to make an equation between population and consumption rates per person. And then we come back to something that is in the jurisdiction of the whole rest of this Government and the Congress, which is our own domestic policy.

Senator JEFFORDS. To follow up on that, bringing health care to a country, a developing nation in particular, changes the whole dynamic of population growth. Even just in indigenous populations in Canada we have seen that. Canada provided health care to the indigenous populations, and in a short brief period of time the population doubled because they had good health care.

How do you combine attempts at educating the population while bringing together improvements that have a dramatic effect on population? Many of these families are used having to have 10 kids in order to ensure that a few survive. What is being done in that area?

Ms. BRUCE. The child survival piece of this I know less about than I should but I will tell you what I know. In most countries where you have very high rates of fertility, of course what is in place are not vertical family planning programs but primary health care programs. However, they often are even compartmentalized so that there is one place people are going for contraceptive services and another place where women stand in line with their children to be immunized.

What often happens is even if a woman wants many children she does not want them all on top of each other. And one thing we really need to make much better use of are reciprocal links between the health sectors.

We have done recent studies in Africa in which we found that the women waiting in line to have their child immunized—and they are making daily decisions about who gets health care because of the time limits. So, they are not going to tend to their own health care. They can make one trip. The trip is for their youngest child. They are carrying their youngest child.

It makes perfect sense to say to this woman, “are there health care needs that you have” and “what about contraception?” It is an add-on that might even sitting right next door at no extra budgetary cost but the health service has become so fragmented because of categorical talking and categorical funding.

Some very basic infrastructural elements will also improve child survival such as domestic water supply. Domestic water supply will ease the burden on millions of women around the world and makes a huge contribution to child survival because it promotes hygiene and potable drinking water and so forth.

So, I believe that within this goal of child survival we must increase parents’ certainty their children will survive—we could pick out in each country, a few really very important things to do which might be offered at one multiservice center without having to, as I say, completely rebuild a whole new infrastructure.

Ms. BRAMBLE. And do not forget the education for girls. We cannot say that enough. We say it six times every time we go anywhere, but the calculations of the changes in women’s desires and choices with every year of added education over essentially the fourth grade is so astonishing that in a very short period of time,

if that were attended to at the same time, you would see women making different choices.

Ms. BRUCE. May I add one last word? Girl's education increases child survival. The children of educated women, and 4 years is enough in many cases, survive at much higher rates. Their earnings in whatever form are higher. Women's earnings are invested directly in children. There is no leakage whatsoever. So, child investment increase dramatically when we link education and women's livelihoods. There is not an area of loss. It is just wins all the way across.

Senator JEFFORDS. Thank you. Mr. Chairman, I would like my statement to be a part of the record.

Senator SARBANES. Certainly it will be included in the record.

[The prepared statement of Senator Jeffords follows:]

PREPARED STATEMENT OF SENATOR JAMES M. JEFFORDS

MR. CHAIRMAN: I am pleased to see this distinguished list of witnesses for today's hearing. They represent a wide range of experts, many with long personal experience in the development field that should be very useful to us as we attempt to rework our foreign assistance priorities and programs.

We need to reorient our priorities, both at home and abroad. In the international sphere, we must continue the effort to do away with chemical weapons, to stop the proliferation of weapons of mass destruction and to conclude a comprehensive nuclear test ban treaty. These actions would free us up to concentrate on the real need—to reorient our foreign assistance programs from military aid to basic development and human needs assistance. I am particularly concerned that insufficient attention is being paid to the critical issues of overpopulation and of environmental devastation.

I will focus my efforts on these issues as we conduct this long overdue comprehensive reform of our foreign aid programs and of the Agency for International Development. Reform is essential if we are to maintain a constituency for foreign assistance among the American people. As it is, the cries for abandoning our obligations abroad and worrying just about our problems here at home ring out loudly. I must admit I am somewhat sympathetic to their cause. However, I firmly believe that foreign assistance, if properly channeled and utilized, is in our own long-term best interest. But we, and the Administration, must make that case more forcefully, and tailor our programs so as to make this goal a reality.

Yes, we want to aid developing countries who share our basic philosophy for very sound ideological and humanitarian reasons, not the least of which is that democratic allies are much less likely to go to war. Environmental devastation and loss of biodiversity around the world is increasing at an alarming rate, preventing many nations from climbing out of terrible poverty. The legislation before us outlines an approach to these problems, however, it does not address why it is in our own best interest to do these things—why the relief of human suffering and the provision of basic human needs is the key to our own domestic prosperity.

Maintenance of our own standard of living and the hope of providing a better life for our children requires expansion of our economy. And the only realistic avenue for growth in the near future is exports. To whom will we sell our goods and services? The most rapidly expanding markets are in the Third World. Helping people in their struggle to climb out of poverty and to develop representative governments will also create opportunities for economic cooperation. If we withdraw into our shell, consumed by the many real and vexing domestic problems that demand our time and energies, we will have failed to take advantage of the many opportunities presented by this new era. Now that we have won the Cold War, we must not get cold feet!

We cannot be complacent. The days are gone when America had no competitors, when everyone came to us first, wanting whatever we chose to sell. Thanks in part to the success of our foreign aid policies such as the Marshall Plan, we now have eager competitors who are willing to put in the hard work necessary to invest in human development and market cultivation.

There is no time to waste. The task before us is both large and pressing. I look forward to the suggestions that our panelists will make to aid us in this effort.

Thank you, Mr. Chairman.

Senator SARBANES. We want to thank this panel very much. We very much appreciate your contribution.

We now turn to our third and final panel this morning which will examine programs for building democracy and promoting peace, essentially titles II and III of the legislation which the administration has submitted to the Congress.

There are a very large number of issues encompassed here, from police training to human rights, democracy promotion to security assistance, arms control, and nonproliferation.

We have on our panel Mr. Frank Conahan, who is the Assistant Comptroller General for the National Security and International Affairs Division of the GAO; Don Fraser, our former colleague, who is now a fellow at the Institute of Politics at the Kennedy School of Government in Cambridge; Caleb Rossiter, Director of the Project on Demilitarization and Democracy here in Washington; Dr. Joel Barkan, professor of political science at the University of Iowa; and Bill Inglee, who is Executive Director of the House Wednesday Group in the House of Representatives.

Gentlemen, we are pleased to have you here. It has been a long morning. I know many of you have been here through a good part of it. We appreciate your patience. We will proceed right to your testimony.

Why do we not start, Mr. Conahan, with you and we will go straight across the panel. Your full statements will be included in the record, and if you could summarize them in 6 to 8 minutes we would appreciate that very much. We will hear from all of you and then we will direct some questions to you before we bring this hearing to a close. Mr. Conahan?

STATEMENT OF FRANK C. CONAHAN, ASSISTANT COMPTROLLER GENERAL, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, GENERAL ACCOUNTING OFFICE

Mr. CONAHAN. Thank you, Mr. Chairman, and members of the subcommittee. I do not think I can avoid reiterating some points that were made earlier. Perhaps I can cast them in a little different light with a little different emphasis.

Senator SARBANES. Just do them very quickly.

Mr. CONAHAN. At the same time there are a number of new points that I think we do need to discuss here this morning, and I do have some fairly specific suggestions for modifying the administration's bill.

Senator Kassebaum talked about backing away from earmarkings, and I think that that is a laudable effort that the administration is making. At the same time I am concerned that the six new categories that have been developed are fairly broad. The Agency for International Development has something over 2,000 projects and programs underway at the moment. I think that any one of those projects or programs could be put under any one of the six new categories in the administration's bill.

I would like to say a word about accountability. I think that in this case we need to look a little more closely at the bill. The managing for results provision in the administration's bill goes only to AID and to sustainable development. I think that that concept

needs to go beyond and to the other titles of the bill, and I think that it should be so modified.

I have a similar comment to make with respect to the evaluation and monitoring of program performance called for by section 7306. It goes, again, only to sustainable development and to AID, and I think that the other programs would benefit from that same kind of evaluation.

Let me make a few comments on specific parts of the bill. First, assistance for democratic development is provided by several U.S. agencies. I would like to make a couple of points about that. There is no central U.S. governmentwide democracy program, no overall statement of U.S. policy regarding U.S. objectives and strategy for democratic development, no specific and common definition of what constitutes a democracy program, and no specificity regarding the roles of the Foreign Affairs and Defense agencies in promoting democratic objectives.

I think that before a conclusion is reached on the bill that both the roles of the agencies and an appropriate mechanism for coordination should be developed.

I think we have a similar situation with student exchange programs. We identified 16 U.S. agencies operating 75 programs. In 1992 they spent about \$655 million. I think until we did that body of work it was little known just how much of that activity was ongoing. I think that we need to come up with coordinating mechanisms and statements of policies there.

Second, the authority and direction for foreign police training is scattered throughout titles II, III, and VII of the bill, and it is unclear what the administration's overall policy on the issue is.

Although the draft includes an overall police training prohibition, there are separate authorities throughout the bill that authorize almost any kind of police training assistance. We believe that that item needs to be cleared up.

Third, title III, chapter 2 contains 7 broad nonproliferation and disarmament objectives. The Department of Defense, as you know, has been authorized in its authorization acts to spend up to \$1 million on projects in the four former Soviet republics in support of goals that are very similar to those outlined in chapter 2.

We believe that the executive needs to sort that out and needs to determine how the chapter 2 funds would be used to supplement, complement, extend, or whatever for the Nunn-Lugar funds.

Fourth, the draft legislation provides considerable flexibility to the administration to commit the U.N. to assist in the promotion of peace. We have identified a number of factors that have affected the success of past peacekeeping operations, particularly those in Cambodia, Somalia, and elsewhere. Those are listed in my prepared statement, and I think that they can serve as lesson learned for future such activities.

Finally, I would like to comment very, very briefly on transfers of U.S.-provided defense articles. Sections 8212 and 8213 incorporate the basic end use and transfer provisions of the existing Foreign Assistance Act.

However, the proposed bill provides for significant exceptions to the retransfer restrictions. And in essence what it does is permit certain countries to retransfer military articles and services to

countries that the United States would not under ordinary circumstances.

There are a number of other important questions and issues which have been addressed earlier which my colleagues here, I am sure, will get to. I think that all these need to be resolved before we go forward with this bill.

[The prepared statement of Mr. Conahan follows:]

PREPARED STATEMENT OF MR. CONAHAN

Mr. Chairman and Members of the Committee: I am pleased to be here to participate in this discussion of how the U.S. foreign assistance program should be reformed to meet the challenges of the post-Cold War world. These are very important discussions because they are directed at defining a new agenda and new approaches to the development and management of our foreign assistance program. The end of the Cold War provides the Administration and the Congress with a unique opportunity to reinvent foreign assistance.

The advancement of a coherent and comprehensive foreign assistance policy that is based on our national interests is one of the most important challenges facing the U.S. government. With the end of the Cold War, there are many new fragile democracies that are struggling to move from command to market economies. To meet the challenges of the new world requires new thinking, new approaches, and new management. The proposed legislation represents a framework for revamping our foreign assistance program to meet these challenges.

Although you asked us to comment specifically on titles II and III of the draft legislation, my comments apply to other portions of the draft as well. Moreover, further study is required to clear up ambiguities and uncertainties as to the intent of the legislation.

We are generally supportive of the flexibility the revised act would provide the executive branch. However, we do have concerns with (1) accountability for program results, (2) how programs authorized will be implemented, and (3) some specific provisions of the draft legislation related to arms transfers.

Before I discuss these issues, I would like to take a moment to talk about why we believe it is important at this time to reassess our broad foreign assistance objectives. My remarks are based on a number of reports we have issued during the past year, including our general management review of the Agency for International Development (AID), our report on U.N. peacekeeping operations, and our prior testimony on foreign assistance reform efforts.¹

REASSESSING FOREIGN ASSISTANCE OBJECTIVES AND STRATEGY

Over the more than 30 years since its enactment, the Foreign Assistance Act of 1961 has been frequently amended, often to add new objectives or to refocus old ones. The proliferation of foreign aid objectives and programs over time has seriously affected AID's ability to satisfactorily accomplish any of them. Recent efforts to articulate a policy rationale for assistance by outlining a limited number of priority objectives—promoting U.S. prosperity, building democracy, promoting sustainable development, promoting peace, providing humanitarian assistance, and advancing diplomacy—represent an important first step, but maintaining this focus will take the continued vigilance of the Administration and the Congress.

One thing is clear—post-Cold War problems are varied and many, and the dollars available to deal with them are few. Thus, there is a need to make sure that the limited funds available are prioritized and properly targeted to the most effective activities. We are particularly concerned that virtually all of the existing foreign assistance programs and projects could fit into one or more of the six broad objectives that the Administration has outlined. It is our hope that the Administration, in consultation with the Congress, will establish some priorities among the six broad objectives so that limited resources can be directed to the most important ones.

ACCOUNTABILITY

I would now like to turn to the broad issue of accountability for foreign assistance program results. The draft legislation does a good job of summarizing overall foreign

¹*Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed* (GAO/NSIAD-93-106, June 11, 1993); *U.N. Peacekeeping: Lessons Learned in Managing Recent Missions* (GAO/NSIAD-94-9, Dec. 29, 1993); and *Foreign Assistance: Reforming the Economic Aid Program* (GAO/T-NSIAD-93-20, July 26, 1993).

policy assistance objectives, and leaves developing and implementing specific strategies and programs to the administering agencies. We believe this approach provides needed flexibility; one criticism of the current Foreign Assistance Act has been the proliferation of directives, controls, and reporting requirements. However, the executive branch still needs to be held accountable for the success and impact of programs and strategies it implements. Our suggested approach would be to put the responsibility for accountability on the executive branch—make them say what impact and accomplishments they expect from the programs they finance and then hold them accountable for achieving those results.

Managing for Results

We believe that programs and projects receiving funds authorized by the proposed legislation should be designed with measurable objectives and expected impacts. As currently written, however, the Managing for Results provision in the draft legislation, which requires assessments of progress, effectiveness, and impact, is only applicable to development programs (title I, chapter I, sec. 1102). The proposed legislation should include assessments of progress and effectiveness for other initiatives. Therefore, we suggest that the Managing for Results concept of the draft legislation be required for all assistance authorized in the act.

We further suggest that the legislation require AID (or the State Department) to develop a plan for achieving the legislation's broad objectives. This plan should include specific programs and projects for each objective. Each program or project would have its own accountability measures that the Congress (and the Administration) could use to hold the various implementing agencies accountable. As we suggested in our general management report on AID, such an approach is the way strategic planning is intended to work. Congress and the executive branch should agree on program objectives and then hold agencies accountable for achieving them.

Evaluation and Monitoring

We do not believe that section 7306 of title VII (Evaluation and Monitoring of Program Performance) is broad enough. It imposes performance monitoring requirements only on AID and only for sustainable development, and not on other agencies or programs that receive funds either directly or indirectly through foreign assistance appropriations. For example, such requirements are not imposed on the U.S. Information Agency, which has responsibility for various programs related to the bill's provisions on promoting democracy. We would hope that the broad intent of this bill is not to restrict performance monitoring requirements only to sustainable development, and that such requirements would be more broadly applied where appropriate.

PROGRAM IMPLEMENTATION ISSUES

We all recognize that the passage of this or similar legislation will not in itself result in a coherent or successful foreign assistance program. Success depends on effective program design and implementation, and there may also be some inherent limitations on what can be achieved. In this context, we have some general observations concerning the specific titles in the draft legislation.

Democracy Programs

Assistance for democratic development is provided by several U.S. agencies, such as AID, the State Department, the Department of Defense, and the U.S. Information Agency. Other organizations include the National Endowment for Democracy and the Asia Foundation. We recently reported that there is no central U.S. governmentwide democracy program, no overall statement of U.S. policy regarding U.S. objectives and strategy for democratic development, no specific and common definition of what constitutes a democracy program, and no specificity regarding the roles of the foreign affairs, and defense agencies in promoting democratic objectives.²

The flexibility this legislation provides the executive branch to implement democratic institution-building projects does not lessen the need to ensure that implementing agencies are accountable for what is achieved. Terms like building democracy describe broad areas of potential activity, which if not clearly defined or described and properly managed, could result in overlap of programs, duplication, and waste. The Committee may want the Administration to define the roles and activities of the individual agencies and provide an appropriate mechanism for coordinating these activities. We were advised that as early as April 1993 the National Security Council was in the process of developing a policy directive addressing these issues, but no directive has been issued as yet.

² *Promoting Democracy: Foreign Affairs and Defense Agencies Funds and Activities—1991 to 1993* (GAO/NSIAD-94-83, Jan. 4, 1994).

Student exchange programs, which will continue to play an important part in the new democracy initiatives, also illustrate our concerns with coordination. Our prior work on this program identified 16 U.S. agencies operating 75 programs.³ The agencies reported spending about \$655 million on their student exchange programs in fiscal year 1992. We reported that the large number of programs created the potential for program duplication, overlap, and fragmentation. Officials from AID and the U.S. Information Agency acknowledged that the potential for overlap exists, and described an overlapping of responsibilities between the two agencies although they did not view that overlap as a serious problem. The Foreign Relations Authorization bill for fiscal years 1994 and 1995 includes a provision requiring strengthened coordination for these programs. Congress may want to consider whether the draft legislation should also emphasize the need for U.S. agencies to better coordinate their programs.

Another concern is the limitations on foreign affairs agencies' ability to design, implement, and manage democratic institution-building activities authorized in the draft legislation. Our concern is based on our examination of AID's Administration of Justice programs. Among the lessons that emerged from our work on programs in Central America⁴ are that (1) imposing judicial reform on a country that is not ready for or receptive to change is generally ineffective and wasteful; (2) addressing technical problems without confronting political and institutional obstacles to reform is usually not productive; and (3) having adequate staff with experience in judicial reform is essential. Agencies will likely continue to face these limitations as they attempt to implement democracy programs. Thus, this is another reason why we believe that the executive branch should be required to explain what it wants to accomplish and how it plans to do so.

Police Training and Assistance Issues

The authority and direction for foreign police training is scattered throughout titles II, III, and VII of the bill, and it is unclear what the Administration's overall policy on the issue is and how such assistance should be implemented. Although the draft includes an overall police training prohibition (as in section 660 of the current Foreign Assistance Act), separate authorities sprinkled throughout the draft legislation authorize almost any type of police assistance, likely rendering the prohibition meaningless. The draft then includes authorization for "such other assistance as the President determines to be appropriate," which in effect would permit almost any police training assistance anywhere.

Our work has identified instances in which police training was extremely beneficial to the furtherance of democracy. However, rather than the set of authorities contained throughout the draft legislation, we would propose a clearer statement of the purpose of the different types of police assistance, the expectations for it, and more precise limitations on when such assistance should not be given.

Nonproliferation

Title III (chapter 2) contains seven broad nonproliferation and disarmament objectives that are generally consistent with existing and, in many cases, long-standing U.S. arms control and nonproliferation goals. The Department of Defense has been authorized in its authorization acts to spend up to \$1 billion on Cooperative Threat Reduction ("Nunn-Lugar") projects in four former Soviet republics in support of goals that are very similar to those in chapter 2. The executive branch should carefully determine how chapter 2 funds would be used to supplement, complement, extend, or substitute for Nunn-Lugar funds.

Peacekeeping Operations

Title III of the draft legislation reaffirms support for peacekeeping operations when they advance U.S. interests and points out that the United States has both multinational and bilateral options to help ensure international peace and security. The draft also provides considerable flexibility to the Administration to commit the United States to assist in the promotion of peace.

On the basis of our prior and ongoing work, we have identified factors that have affected the success of past peacekeeping operations. These include

- the importance of operationally and politically feasible mandates;
- weaknesses in the United Nations' capability to implement peacekeeping missions, including problems with limited resources to plan operations and a limited capacity to provide logistical support;

³Exchange Programs: Inventory of International Educational, Cultural, and Training Programs (GAO/NSIAD-93-157BR, June 23, 1993).

⁴Foreign Assistance: Promoting Judicial Reform to Strengthen Democracies (GAO/NSIAD-93-149, Sept. 1, 1993).

- unreliable budgetary estimates of the costs of operations, leading to a reluctance on the part of U.N. member states to commit resources;
- concerns over the lack of basic peacekeeping training and preparedness of volunteer troops and civilian personnel; and
- inherent limitations in command and control mechanisms and limited coordination of military and civilian activities.

These factors can serve as important lessons for any future U.S. commitments as envisioned in the draft legislation.

ARMS TRANSFER-RELATED PROVISIONS

Mr. Chairman, you requested our views on titles II and III of the proposed legislation. We would also like to offer some views we have on title VIII—General Provisions related to end-use and retransfer assurances and approval of third-country transfers of U.S.-provided defense articles and services and title IX regarding the eligibility and penalty provisions in the Arms Export Control Act (AECA).

Sections 8212 and 8213 incorporate the basic end-use and retransfer provisions of Section 505 of the existing Foreign Assistance Act, and apply them to arms supplied under the proposed legislation. They also provide for termination of assistance for substantial violations. However, the proposed bill provides for significant exceptions to the retransfer restriction. It appears to allow foreign countries to retransfer U.S. defense articles and services without prior U.S. approval if: (1) a foreign country is incorporating U.S. components into its own defense equipment and then exporting the end-item, (2) the recipient is a NATO country, Australia, or Japan, (3) the U.S. components were not significant military equipment (dollar threshold), did not require congressional notification for the original transfer under the AECA, and are not Missile Technology Control Regime items, and (4) the foreign country/person making the retransfers notifies the U.S. Government within 30 days following the transfer. We would note that section 505 of the existing Foreign Assistance Act contains no exceptions to the requirements for prior U.S. consent.

We have the following concerns regarding these exceptions. The first exception could permit countries to do what they have been unauthorized to do under the existing legislation—incorporate U.S. parts into their weapon systems and then ship them without prior consent to destinations that the U.S. government itself would not sell to. The second exception treats all NATO countries alike when they do not behave equally responsibly (or in alignment with our national or regional security interests) in the world arms market. The third exception would allow countries to buy U.S. significant military equipment broken down into smaller components without being subject to retransfer restrictions. Our concern here is similar to that related to the first exception. Key U.S. components have been incorporated into weapon systems developed in the recipient countries who then sell the end items to countries the United States would not sell to. The fourth exception enables the U.S. Government to be notified only after the fact that its weapon componentry has been retransferred to a third country which may be an undesirable final destination from the U.S. Government's perspective.

Currently, section 3 of the AECA provides penalties and requires the President to report to the Congress substantial violations of restrictions on (1) offensive use or other unauthorized uses; (2) unauthorized retransfers to third parties; and (3) failure to maintain security of U.S. weapons sold abroad. The conforming amendments in section 9104 of the proposed legislation may limit the application of the penalties only to unauthorized uses of the weapons and not to unauthorized transfers or failure to secure them.

This concludes my statement. I would be happy to answer any questions.

Senator SARBANES. Very good. Thank you, sir. Don Fraser, we are pleased to have you back with us. We look forward to hearing from you.

STATEMENT OF HON. DONALD M. FRASER, INSTITUTE OF POLITICS FELLOW, KENNEDY SCHOOL OF GOVERNMENT

Mr. FRASER. Thank you very much, Mr. Chairman, and members of the committee. I welcome this opportunity to testify on the administration's new Peace, Prosperity, and Democracy Act of 1994.

As you may remember, I was a Member of Congress from 1962 to 1978 and served as chairman of the Subcommittee on Inter-

national Organizations which helped lay the legislative foundation for some of these human rights provisions.

I am testifying today on behalf of the Washington Coalition of Human Rights, a coalition of NGO's seeking advancement of international rights abroad. We have a series of amendments that are attached to my testimony which I am submitting for the committee's consideration.

The most fundamental criticism I have of the draft bill is that human rights is not made a primary goal. Rather, it is treated as a byproduct of promoting democracy. I welcome the emphasis on democracy but by downgrading the importance of the human rights concept I think we are detaching ourselves somewhat from the international regime which has established human rights standards. It will serve the U.S. interests better if we stay tied to those international standards, to those treaties and conventions. One can read the Universal Declaration on Human Rights and find no reference to the word democracy.

Our human rights provisions in the Federal statutes have been tied considerably to the cluster of rights that were once identified, I think by Secretary Vance, as the rights involving the integrity of the person—the right to be free of torture, disappearance, summary execution, and so on. That is a very tight statement of concern. It is precise. It deals with the really serious abuses. To let that sort of slide gently off to the side and to deemphasize it is not in our interest.

Promotion of democracy, good as it is, is a very diffuse concept which ranges rather broadly over a number of rights. So, I would hope that in addition to the emphasis on democracy that we would keep as a goal our attention on these fundamental human rights concerns.

The other main point I want to make is that section 502(b), which was enacted some years ago as a restraint on the provision of security assistance, has never been explicitly invoked as far as I know. That provision says that where there is a consistent pattern of gross violations, that we should not give security assistance except under extraordinary circumstances. It may have been useful as a talking point with other governments but it has never been invoked. It has never served actually to terminate aid.

What we are recommending, on behalf of the coalition, is an intermediate stage, a kind of an early warning or probationary status so that if a country has serious human rights concerns, but nonetheless the administration believes they need to get security assistance, that there be an intermediate finding, which would require a waiver approval by the committees, that they could get the assistance but they were on notice that they had serious problems and might not continue to get security assistance without improvement in their human rights practices.

Mr. Chairman, those are the two main ideas that I wanted to submit. The amendments that are attached to my longer testimony are a little more detailed in spelling out those ideas.

[The prepared statement of Mr. Fraser follows:]

PREPARED STATEMENT OF MR. FRASER

Mr. Chairman, I am pleased to be testifying before this Subcommittee. I was a Member of the House of Representatives from 1962 to 1978 and during that period served on the Committee on Foreign Affairs. From 1973 to 1978 I chaired the Subcommittee on International Organizations. I testify today on behalf of the Washington Coalition of Human Rights. The Coalition is composed of non-governmental organizations seeking the advancement of international human rights abroad. It has carefully reviewed The Peace, Prosperity, and Democracy Act of 1994, and has asked me to share with you their appraisal of the bill which I will summarize in my statement. Attached for the record I include their amendments to the bill and I ask that you give them your serious consideration.

After becoming chair of the Subcommittee, I was struck with how little consideration the Department of State and the administration had been giving to how governments treat their own people in shaping U.S. foreign policy. In 1973 the Subcommittee held the first comprehensive Congressional hearings on international human rights; from 1973 through 1978 the Subcommittee held about 150 hearings on this subject. There were many other Members of Congress who were also actively supporting greater priority to human rights in U.S. foreign policy.

In response to this situation, Congress adopted legislation which required the administration to give priority to human rights in making foreign policy, linked human rights and foreign assistance, created the Bureau of Human Rights and Humanitarian Affairs, and mandated the annual country reports on human rights practices.

I present this background in order to emphasize the critical role Congress has played in this field. As this Subcommittee sets out to re-frame foreign assistance legislation, it is critical that Congress maintains human rights promotion as a primary goal of U.S. foreign policy.

The most fundamental criticism I have of the administration's bill is that promoting human rights is not made a primary goal of foreign policy, rather it is treated as a by-product of promoting democracy. In my view an essential pre-condition for creating genuine democracies is attainment of respect for human rights. Unless there is—freedom from arbitrary arrest and detention, freedom from torture and summary executions, freedom from want, respect for justice and the rule of law, and freedom of association, of speech and of the press—democracy is not possible. As you well know, there are some governments which have some of the forms of democracy, but because of serious human rights violations can not be considered genuine democracies. As Secretary of State Warren Christopher remarked, in his address February 1st to non-governmental organizations when introducing the *Country Reports on Human Rights Practices 1993*, even democracies are not immune from human rights abuses.

In my view, therefore, Title II on "Building Democracy" should be rephrased as "The Promotion of Human Rights and Democracy." The contents of the title should place emphasis on both promotion of human rights and of democracy as primary objectives of U.S. foreign policy and U.S. foreign assistance. AID should encourage the work of human rights advocates, those who provide healing to people traumatized by forces of repression, and other non-governmental organizations that are genuinely independent of their governments.

The promotion of human rights is stipulated as a basic purpose of the United Nations and Member States are obliged under the Charter to take joint and separate action to promote human rights. Moreover, the United States in voluntarily signing and in some cases ratifying international and regional treaties has demonstrated a willingness to promote internationally recognized human rights standards.

In encouraging democracy we would do well to concentrate our efforts on promoting those essential human rights described above which are the foundation for genuine democracy. We would be promoting internationally agreed upon standards, and not an American blueprint for how peoples should govern themselves.

Since the annual country reports on human rights are such an important element in U.S. human rights policy, we recommend that the legislation for those reports be part of Title II. Moreover, the reports should be more than an objective record of a government's human rights performance. They should also describe United States activity to encourage the government to improve its performance and that government's response. A poor response by a government slated to receive foreign assistance should alert Congress to give that request careful scrutiny.

Foreign assistance can also be used to promote basic economic rights. People oriented aid—investing in human resources, rather than military equipment and prestige projects—can provide sustainable poverty alleviation as well as enhance the poor's access to basic human rights such as education, health care and housing.

There are few people better placed to assess and impact upon human rights abuses than U.S. diplomats. The bill's Title VI—Advancing Diplomacy—needs to emphasize that our diplomats should make sustained efforts to condemn human rights violations, seek information about political prisoners, attend key political trials and meet with torture survivors and human rights advocates. These activities are justified on humanitarian grounds apart from the broader goal of promoting democracy.

I now wish to address the question of linkage between human rights and security assistance. Section 502B of the Foreign Assistance Act of 1961 has defined security assistance and given the executive branch a set of guidelines for determining whether a government is eligible for such assistance. Security assistance includes not only military assistance and sales, but military training and commercial sales of defense articles or services.¹ The guidelines state that except under extraordinary circumstances "no security assistance may be provided to any country the government of which engages in a consistent pattern of gross violations of internationally recognized human rights."

The executive branch has not explicitly terminated security assistance because of Section 502B. The law is too heavy-handed—requiring all or nothing. It does not allow for situations in which circumstances require the United States to continue providing security assistance to a government while also conveying to it that the United States is deeply concerned with its level of observance of human rights.

To overcome this problem, the Coalition offers the Committee a three stage process which rests with positive incentives to adhere to human rights standards. This process utilizes the Department of State's country reports on human rights practices. Countries which receive a positive certification would be entitled to security assistance without conditions. Countries which did not receive a positive certification would be placed under review making them eligible for assistance whilst providing them with a fair warning that future assistance could be jeopardized if significant progress was not made. The Department of State would request a waiver from the appropriate legislative committees of Congress. Lastly, countries not meeting internationally recognized human rights standards would be barred from receiving security assistance.

Under this formula the administration will have a more effective handle to induce governments to achieve progress in human rights than in either the existing law or that proposed by the administration. Congress will have a more active role in decisions to continue security assistance. An affected government will have a reasonable opportunity to make improvements in its human rights performance. If significant progress is not made, the administration can continue assistance if one of the exceptions elaborated in Section 7201 apply.

The administration's bill allows for an exception on grounds of "national interest." This language is weaker than the present legislation (Section 502B of the FAA) which calls for an exception when "extraordinary circumstances" warrant such assistance. The Coalition allows for an exception when the security assistance is "vital to national security." In Section 7201(e) the Coalition amendments also rephrase the term "Human Rights Violators" to more diplomatic language—"a government which does not meet internationally recognized human rights standards" and broadens the concept to include such violations as genocide, violations in times of armed conflict, and ethnic cleansing.

My concluding remarks pertain to the bill's provision for police training. Recently, an associate of The Center for Victims of Torture—which is based in my hometown of Minneapolis—visited a treatment center in a third world country. She inquired whether the center would consider receiving financial support from AID. The director of this center told her that he could not accept AID support because police in his country had received training from AID and they were later involved in human rights abuses. The credibility of his organization would be jeopardized if it were to receive support from AID.

I relate this story to illustrate some of the pitfalls of U.S. involvement in police training. Even training that is beyond reproach can be discredited by events unrelated—or even in spite of—U.S. training. Moreover, it can prevent us from assisting organizations such as the one described above which are making valiant efforts to promote human rights and democracy.

Every effort should be made to insure that U.S. assistance for police training is consistent with our human rights policy. For this reason we propose that the bill provide that the Assistant Secretary for Human Rights, Democracy and Labor Affairs be given responsibility for authorizing and monitoring all police training.

¹The Coalition's language adopts the definition of security assistance which appears in Section 502B.

In conclusion, Mr. Chairman, I think that by strengthening the human rights provisions in the bill the Subcommittee will actually enhance this administration's commitment to promote peace, development and democracy. It would also ensure the support of a large number of non-governmental organizations and citizens' groups. I appreciated having the opportunity to address the Subcommittee and would be happy to respond to any questions Members might wish to address to me.

[The amendments to the bill referred to may be found in committee files.]

Senator SARBANES. Thank you very much. I think that first point is one to which we really need to pay some attention, because obviously you can have a nondemocratic country in which the fight to protect the integrity of the person can still be waged. So, while they do not have a democratic political system, we can at least put some protections around the individual in the terms of their basic human rights—I mean, to see that they receive due process and do not get tortured and do not get summary jail sentences and so forth and so on. Dr. Rossiter?

STATEMENT OF DR. CALEB ROSSITER, DIRECTOR, PROJECT ON DEMILITARIZATION AND DEMOCRACY

Dr. ROSSITER. Thank you, Chairman Sarbanes.

During the 1980's I provided information and advice to you while I was at the Arms Control and Foreign Policy Caucus working for Edie Wilkie, so I hope I will do as good a job today. It is nice to see you all and many people on the staff that I worked with at that time. There is life after Congress.

In the area of military aid I do not think that this bill is a reform bill. I think it is the opposite. Not only does it simply restate the existing human rights law which last year did not have much effect and permitted a record level of arms sales to undemocratic governments. Not only does it carry forward the plethora of police aid programs from the 1980's which I think have serious, serious problems, but it also reverses a trend in which your committee and the Appropriations Committee have squeezed military aid to where it is now limited to the Mediterranean countries, and tried to reduce it to the rest of the developing world.

Through loose definitions and really outlandish waivers and a number of drawdown authorities I think that this bill will put the Defense Department back in the military aid business in dozens of unstable and undemocratic countries.

I think foreign aid reform will fail unless there is also arms transfer reform. I do not think that we can get democracy and economic growth abroad as long as we are helping fuel arms races.

There is a joke going around the development community, which is that title I of this bill, the sustainable development title, is an island of paradise surrounded by a sea of sharks in titles II and III, the military aid sections. I agree with that, and I think you need to look very carefully at titles II and III.

Let me first tackle the problem of arms transfers. During fiscal year 1993 the United States transferred a record level of armaments to undemocratic governments, countries the State Department identifies that way in the human rights reports, a doubling of President Bush's last year.

Now, the world and U.S. economy we know are hurt in the long term by these sales. Senator Feingold has done work on the offset problem, with jobs really not being created by arms sales, and I

have included in my testimony some economists' work on the problem of arms transfers and their impact on development abroad and our own exports. And we know that U.S. forces have to face a more dangerous world when we transfer our most sophisticated weapons overseas. So why is this happening?

I really think it is because that is long-term thinking and we are looking for short-term profits and jobs in this arms exports explosion which is coming because the Pentagon is buying so much less and producers are looking overseas. We really have to get a handle on this problem, and given the administration's record, which was not stopping much at all last year, legislative conditions are all that can do it.

The primary law, as former Congressman Fraser has mentioned, is 502(b). It says who cannot get our weapons whether through sales or aid. I agree that 502(b) is outdated. It is nearly 20 years old. It does not really restrict much. And I agree with the human rights community that we need a new standard, a positive certification that countries are meeting certain criteria before they can be eligible.

I would submit to the committee that this standard has been developed and introduced as a bill by Senator Hatfield and Representative McKinney. It is called the Arms Trade Code of Conduct Act, and the most important single step I think you could take to turning this document into a reform bill is to include the Hatfield bill instead of 502(b).

What that bill does, essentially, is require a positive certification by the President that countries are promoting democracy and protecting human rights. If they are not, you could still provide the assistance but not, as in this bill, by total Presidential authority, but with a congressional approval every year making a country eligible, included in your foreign aid bill.

I would note that 100 citizens organizations have endorsed this code in a grassroots campaign called "No Arms for Dictators". I have included a list in my testimony for you.

Now, on to military and police aid. It is very difficult to analyze these sections. You have 175 pages of dense waivers at the back of this bill after the crisp language in the titles early on—that is only 10 or 15 pages. You would have to be the Congressional Research Service's Larry Nowels to understand everything that is going on in here. I certainly do not. I have tried to dig through it and show you some specific things.

I think that the New World order should have a lot more to do with demilitarizing the world and encouraging countries to reduce their armed forces by working with their neighbors the way we did in Europe in the CFE talks to bring down the levels rather than just keep up the levels and make sure they are all sort of secure at the higher level.

Israel is no more secure today, when we gave Saudi Arabia the F-15 aircraft and Israel then had to get it through foreign aid to match it, than if we had never let the F-15 go to Saudi Arabia. They would both be spending a lot less and no one would be more threatened.

So, we need to stop this cycle of violence and I think that the bill does not really make a dramatic new move in that effort.

Certainly within individual countries I do not think the record shows that we have much business helping them preserve internal security. I am very troubled that the bill beefs up the police aid programs and even thinks that military programs could help a country maintain internal security. If they are a repressive government we should just be pressing on them to get the army out of politics, not to help them with internal security.

The police aid programs I feel very strongly about and did produce a report on at the Arms Control and Foreign Policy Caucus, Mr. Chairman, when you were looking over the Central America police aid programs in the 1980's. I think they look good on paper but in practice when you aid police forces in a country with no rule of law, whether it is for antinarcotics, administration of justice, antiterrorism, we have abuse and misuse.

We should not be aiding foreign police. We should be helping build safe societies by expanding programs to strengthen courts, lawyers, and advocacy groups.

There are three things I think need to be stuck into this bill. One is a ban on cash-flow financing. Nowhere is the need for a new definition of security more important than in the Middle East, but that process cannot even take place in your committee for 4 or 5 years if Egypt and Israel keep getting cash-flow financing, under which they can order a large amount of weaponry and just take aid to pay for this year's.

We do not even let the Pentagon do that. When you authorize and appropriate for the Pentagon, you authorize for that whole aircraft carrier, and you put the money up front. But Israel and Egypt, they can put only this year's progress payments in the bill in the expectation that you will appropriate more later. I think it raises serious constitutional problems that you would expect that.

I have asked for a couple of other things here. Let me just leave them in the testimony and say that from page 17 on I have tried to do what the development groups have asked me to the last couple of months, and finally you forced me to—a section-by-section analysis of this from the point of view of military programs.

There are a number of waivers, ways that military aid and particularly the IMET program are revised, and hidden, and stuck into new authorities. As Mr. Conahan noted, most of these authorities would permit anything to anybody. And so I think you need to sit down and scrub these titles with the administration the way the sustainable development titles have been scrubbed as well.

There is a waiver of all waivers sitting in title VII that lets the President waive any law he wants, and for the first time mentioned the Arms Export Control Act. It looks like sort of line item veto for foreign aid and arms sales with \$1 billion of extra authority. I would take a good look at that.

In conclusion, I think that there are a number of problems in the current military aid program that I had hoped the committee would get at this year—excess defense articles being transferred from our stocks, changing the arms transfer rules so that there is this Hatfield code of conduct provision rather than old 502(b)—but with the business of going through here and finding what is taken out by the things that are repealed; for example, they will repeal a 1976 Security Act except for section 22(c). Somebody has got to

find out what 22(c) is and what is lost by the repeal. I fear that you will spend a lot of time looking back this year rather than looking forward in this process, and I am not sure that it is going to work.

[The prepared statement of Dr. Rossiter follows:]

PREPARED STATEMENT OF DR. ROSSITER

Mr. Chairman, thank you for inviting me here today to discuss the administration's foreign aid reform bill and its likely impact on democracy and peace in the coming years. The debate this year over the administration's proposal is America's first and best chance to craft a post-Cold War policy toward the developing world. I am grateful for the opportunity to suggest revisions that will speed the worldwide demilitarization that is so crucial to the bill's stated goals of democracy and economic growth.

As currently written, this proposal is mislabeled: as a whole, it is not a reform bill for U.S. foreign aid. Yes, it contains a promising reform initiative, the creation of flexible, locally-planned AID programs under the sustainable development title, which will make it far more difficult for the State Department to capture development assistance funds and misdirect them toward diplomatic goals. However, the bill offers no reform at all for our multilateral economic aid programs, such as the World Bank, the International Monetary Fund and the regional development banks, which have far more resources and impact than our bilateral ones, and whose programs and planning processes are badly out of touch with the needs of the impoverished people who are the intended beneficiaries of the new AID approach.

And in the area of military aid, this bill is the opposite of reform: not only does it simply restate existing human rights law that last year permitted record arms sales to undemocratic countries, not only does it simply carry forward the plethora of police aid programs that sprouted in the 1980s with such disastrous results, but it also reverses a trend of military aid being reduced and limited to only the Mediterranean countries. Through loose definitions, outlandish waivers and a plethora of draw-down authorities, this bill will put the Defense Department back in the military aid business in dozens of unstable and undemocratic countries.

You will notice that there are a number of briefing papers provided to the Committee by the administration to justify its proposed language on sustainable development. But in the entire packet, there isn't a single briefing paper justifying the far larger sections of the bill covering military and police programs. Why? Perhaps because it would be hard to justify as "reform" the continuation of programs and policies that the Reagan and Bush administrations pushed past Congress during the Cold War frenzy of the 1980s and the arms sale frenzy in the aftermath of the Gulf War.

With all due respect for the fine work that Brian Atwood and Dick McCall have done at AID crafting the sustainable development title, if this bill becomes law as written, the positive impact of that title on economic growth, peace, and democracy will be far outweighed by the negative impact of military and police aid under Title II and III. Foreign aid reform will fail unless there is also arms transfer reform. The bill's goal is to promote democracy and economic growth abroad, but both are undermined by a continued policy of arming dictators and human rights abusers. Arms races and conflict are destroying the economy of the developing world, which hurts our commercial exports and in the end loses us more jobs than we save with sales. It's time to stop this spiral of violence and poverty, and there is no place more appropriate to do that than in a foreign aid reform bill whose goal is to promote democracy and economic growth.

The joke going around the development community is that Title I is a paradise island of sustainable development surrounded by a sea of sharks from Titles II and III. I agree, and I think that non-governmental organizations will have to think long and hard about signing on for this vacation package, unless the sharks are defanged.

A CODE OF CONDUCT ON ARMS TRANSFERS

Let me tackle first the problem of arms transfers, and then turn to a section-by-section review of the military and police aid provisions of the administration's bill. On arms transfers, this bill perfectly reflects President Clinton's policy toward the developing world: a lot of talk about how democracy and economic growth are essential to our own security and prosperity, but no action to restrain record levels of U.S. arms transfers to dictators, which block the transition to democracy and wreak havoc on the world economy.

In his State of the Union address this year, President Clinton said, right after discussing his proposed defense budget: "Ultimately, the best strategy to ensure our security and to build a durable peace is to support the advance of democracy elsewhere. Democracies don't attack each other. They make better trading partners and partners in diplomacy." And the President is right: that is why we need foreign aid reform, so that we can better promote our own security through promoting full political rights and economic opportunity elsewhere. But does this bill promote democracy, or strengthen dictators?

During fiscal year 1993, our government approved the sale of \$25 billion of weapons to governments described as undemocratic in the State Department's most recent *Country Reports on Human Rights Practices*. How could this be happening in a Democratic administration? Because the giant military contractors, allied in their lobbying association, the Aerospace Industries Association, are drumming up foreign sales to take the sting out of reduced Pentagon procurement, and Secretary of Commerce Ron Brown and the military services are then driving these sales through the bureaucracy, overrunning what little opposition exists in the State Department and the Arms Control and Disarmament Agency.

Now, one can understand the AIA wanting to sell anything to anybody, but why the Commerce and Defense Departments? After all, the world and U.S. economy are hurt by these deals, because of offset deals with purchasing countries that often take away as many U.S. jobs as the weapons sales maintain, because of increases in military aid to pay for many of the weapons, and because of the waste of military spending and the devastation of war. (Senator Feingold has started important reforms on the offset problem; for an excellent summary of this and other negative economic effects of arms sales, I refer the Committee to the briefing paper on this topic by the National Commission on Economic Conversion and Disarmament, which is attached at the conclusion of my testimony.) And U.S. forces have to face a more dangerous world when we and our allies sell weapons to unstable regimes, as shown by the fact that U.S. forces faced U.S. weapons and weapons technology in their last three combat missions: Panama, Iraq, and Somalia.

But that is long-term thinking, and the Commerce Department wants identifiable jobs and profits *this* year, and the military services don't want to have to use *this* year's procurement allotments to pay to keep these factories running, so they sell our strategic interests short.

Given this administration's refusal to confront the AIA or the military services on arms sales, legislative conditions constitute the only barrier to this arms race with ourselves—in which, for example, we sell F-15s to Saudi Arabia and then have to use billions of dollars in foreign aid to give F-15s to Israel to meet that threat, and on top of that have to spend ten of billions of dollars developing the F-22 to maintain our own technological superiority over the F-15s and F-16s we've sold all over the world.

The primary law that says what kinds of governments can and can't get our weapons is known as 502B, the human rights provision of the Foreign Assistance Act. This contains the well-known definition of a country banned from military aid and arms sales: "the government of which engages in a consistent pattern of gross violations of internationally recognized human rights." This nebulous standard has never been cited in denying a country weapons, in part because it requires a negative and very undiplomatic finding about another government.

It is clear that 502B is outdated, that it is too old and too porous to stop today's record arms sales to repressive regimes. I agree with the human rights community that this reform bill is the perfect opportunity to adopt a new standard, one that uses a positive certification and a more specific definition of the kinds of governments we should even consider propping up by strengthening their armed forces. I submit to this Committee that such a standard has been developed in the Code of Conduct on Arms Transfers Act of 1993, introduced by Representative Cynthia McKinney and Senator Mark Hatfield. This Code of Conduct bill should be incorporated directly into the administration's foreign aid bill in place of 502B, which is renumbered 7202(e). That is the most important single step this Committee could take to make the foreign aid proposal truly a reform bill.

The McKinney-Hatfield bill sets up a positive certification process for arms transfers. It requires that the administration find that a country meets the Code of Conduct's standards before it can be eligible to receive U.S. weapons during the coming year. Those standards are that the country: promotes democracy; protects human rights; is not engaged in aggression; and is fully participating in the U.N. arms trade register. Congress and the President could make a country eligible without this administration report by passing a law—either as a free-standing bill or an amendment to a foreign assistance bill or other bill.

There is a short-hand version of this Code, "No Arms for Dictators," which is the slogan for a nationwide campaign launched earlier this month by over 100 citizens' organizations. These organizations include development groups like Bread for the World and the Alliance for Child Survival, human rights groups like Amnesty International and Human Rights Watch, women's groups like the YWCA and WAND, arms control groups like the Council for A Livable World and the Federation of American Scientists, veterans' groups like the Vietnam Veterans of America Foundation, religious groups like the American Baptist Churches and NETWORK: A Catholic Social Justice Lobby, and economic conversion groups like the National Commission on Economic Conversion and Disarmament. I have attached to my testimony the grass-roots version of the Code of Conduct, and a list of the organizations that have endorsed it to date.

The policy version of the Code is the McKinney-Hatfield bill, which includes precise definitions of what it means to promote democracy and protect human rights. And it doesn't just mean holding elections and freeing some political prisoners. It means actively pushing for the underlying elements of democracy and human rights as well: free expression, no reprisals for political activity, and protection for women, ethnic and religious minorities, and other oppressed segments of society. These definitions were developed by the congressional sponsors in consultation with some of the finest human rights specialists in the United States. I think you will find that they are meaningful and consistent both with the types of information and judgments contained in the State Department's human rights reports, and with the way human rights concerns have changed since section 502B was written nearly 20 years ago.

A U.S. Code of Conduct will be most effective if it is also adopted by other suppliers. Efforts to promote a Code in other supplier countries, which are being led by the British arms control group Saferworld, would receive a tremendous boost if the United States took the first step. The United States took some unilateral first steps in starting the process of banning individual weapons like chemical weapons and anti-personnel landmines, and other countries then came under great pressure to follow. The same can be true of starting the process of banning all arms to countries that don't meet the Code. I urge you to include the Code of Conduct bill in the foreign aid reform legislation.

MILITARY AND POLICE AID: SUMMARY AND SUGGESTED REFORMS

Turning to the military and police aid provisions of the bill, I would like to offer three conclusions about what's in the bill but shouldn't be, and three suggestions about what isn't in the bill but should be. Then I will list the specific sections that should be tightly controlled or simply dropped if the justifications you receive in testimony from administration witnesses are too weak.

SUMMARY

Difficult to analyze all the implications: These provisions contain a veritable flood of loose definitions, waivers, and drawdown authorities. Some are simply repeated from the existing foreign aid bill, and some are new. Only the Congressional Research Service's Larry Nowels could tell you which are which. But it really doesn't matter: if this is to be a reform act, nothing should be carried over without a new justification.

Unlike the development and relief provisions of the bill, the military and police provisions have not yet been scrutinized and questioned by non-governmental organizations. The main titles in this bill have from 10 to 25 pages in legislative language, but then comes 175 pages of dense waivers and restrictions and definitions, many of them relating to military and police programs. I have not caught all the tricks, I'm sure, but I've found enough to convince me that this is a concerted effort to revive the flagging military aid program and cement it in the foreign aid program of the next decade.

Demilitarization increases security more than military aid: The guiding assumption of the military and police provisions of the bill appears to be that our security interests are best served by equipping and training the military and police forces of unstable, undemocratic regimes so that they can maintain internal order more professionally and deter aggression more convincingly. That was the theme of our security aid programs throughout the Cold War. I would like to see that tired rationale for continued security aid examined, country by country.

I think you would find that our security would be far better served by a policy not of fueling regional arms races, but of promoting regional demilitarization—meaning the mutual reduction of armed forces and spending and the elimination of offensive weapons and deployments as in the Conventional Forces in Europe agree-

ment. And within individual countries, I think you would find that the armed forces are a major political and economic barrier to progress toward democracy and development, and that those goals would be reached more often and civil wars would rage less often if we aggressively promoted dramatic reductions in the size and political power of armed forces.

The classic expression of the assumption that undemocratic armed forces can be "professionalized" was the International Military Education and Training program, which actually counted in its total of successful training of "influential" officials military officers who were influential because they had staged coups and had become presidents! That program, which is on its last legs because of a 50 percent cut in funding by Congress last year, would receive a new lease on life from this foreign aid reform proposal.

Our goal in the 1990s should be to make the armed forces irrelevant in politics, not "influential." Rather than fueling regional arms races in which all sides must face an increasing level of armament against them, or helping repressive governments handle "internal" threats, we should be leading a high-profile effort to reduce armed forces' size, spending and political power throughout the developing world. At stake is their nearly \$200 billion in annual spending, which dwarfs all the resources being provided by this bill. This bill should be building on the efforts in recent appropriations acts to used World Bank lending, which is often conditioned on other economic reforms, as a carrot to spur reductions in wasteful military spending. Instead, this bill asks for weapons and training that will spur the spending, not the reductions.

Police aid has been a failure: During the 1980s, the theory of "professionalizing" repressive forces through foreign aid programs was expanded to apply to foreign police forces. This Reagan era policy is expanded even more in the reform bill, with additional rationales and loopholes and even the addition of prison guards to those equipped and trained by the American taxpayer. The record of the past 40 years—from the Office of Public Safety and its involvement in the Tiger Cages of Vietnam to the Special Investigative Unit and its involvement in the coverup of the Jesuit murders in El Salvador, from the failure of anti-drug programs to reform corrupt Andean police to the failure of CIA programs to reform corrupt Haitian police—shows that America has no business strengthening the internal security forces of another country.

It all looks good as plans on paper, but in practice, police who operate in countries without a strong judicial system misuse our aid, whether it is given under the Administration of Justice program, the Anti-Terrorism Assistance program, the International Narcotics Control program, or a host of smaller programs floating around in the foreign assistance act. I urge the Committee to end this experiment with aiding police. Let's stick to the legal side of building safe societies, by expanding our programs to strengthen courts, lawyers, newspapers and advocacy groups, and, most importantly, the resolve of the government in question.

SUGGESTED REFORMS

There are three provisions that I think should be added to this bill to help Congress regain control of the military aid program: a ban on cash-flow financing for military aid orders, an annual report to Congress listing all arms transfers by weapon and by country, and an end to CIA and other covert aid programs to military and police forces. Actually, placing these in the law would largely return to Congress the controls it had in place in 1980, but lost during the Reagan administration.

Cash-flow financing: Nowhere is the need for a new definition of security more important than in the Middle East. Israel would be far more secure with no U.S. military aid in the context of a regional ban on the importation of new offensive weapons than with continued U.S. aid to help it buy weapons to match others' advances in weaponry. In light of the historic peace agreement achieved last fall and the economic needs of the region, there is an obvious need to restructure and reduce military aid to Mediterranean countries in the context of regional demilitarization. The details of a restructured and reduced military aid package, and the security agreements in the region that are a precondition to major changes, will have of course to be worked out with the governments and the citizen development organizations in the region. But that process can never take place, even years into the future, without the elimination of cash-flow financing today.

Cash-flow financing is an exceptional and perhaps unconstitutional administrative regulation that permits Egypt and Israel to order weapons without having military aid set aside to pay for them. These orders are made "in the expectation of appropriations" in the years ahead, when the bills actually come due as the weapons are

manufactured and delivered. The practical effect of this policy is to lock Congress into funding at today's \$5 billion annual level for four to five years.

Prior to the invention of cash-flow financing in the 1980s, all recipients of U.S. military aid used the same procedure as the Pentagon does in the defense authorization act: you can only order what you have the money for. If you want to order 5 tanks, you have to have been authorized the necessary funds and set them aside. But now Egypt and Israel can order those five tanks as long as they have enough U.S. funds set aside to make just this year's progress payments. Next year's? And the year after? And the year after, as the bills keep coming due for the deliveries of the weapons? The appropriations from future congresses are "expected" to take care of that. The Committee must end this policy now, so that a few years from now it can have even the option of restructuring and reducing aid to the Middle East.

Full reports on arms transfers: In 1981, The Reagan administration asked for and got the repeal of perhaps the most informative security assistance report, under old section 657, which required a listing of every weapon that went to every country from every one of the many U.S. government or U.S. commercial export programs. That report had placed all U.S. arms transfers in the light of day, for Congress and human rights groups and security-oriented groups like mine to see, and a lot of arms transfers simply can't stand up to that kind of scrutiny.

The most important technical reform that this Committee could make in the security aid area would be to bring back section 657, and add a requirement for best estimates of possible sales in the year to come. All these data exist in the U.S. government already: they are the building blocks that are used to come up with the country dollar totals for the previous fiscal year and dollar estimates for the coming one in the annual congressional presentation for security assistance. Just liberate these data so that you and we can see what specific transfers our government has approved and is thinking of approving.

Covert aid: My third addition to the bill would be a ban on covert arms and training programs under the Intelligence Act. How many more Haitis, El Salvadors, and Angolas do we need to learn that covert aid programs corrupt the recipients precisely because they are covert and have no leverage? If we are to engage in aiding foreign forces, we should do so openly.

Although many aspects of intelligence law are themselves classified, it is my understanding that the President can initiate a covert aid program by simply making a finding. Then, at least during the fiscal year in question, the program can continue unless Congress enacts a bill to close it down. At a minimum, secret aid programs should be approved by law before they start, and this Committee, perhaps in tandem with the Intelligence Committees, should be the sponsors of such a classified law.

MILITARY AND POLICE AID: SECTION-BY-SECTION ANALYSIS

Now, to the specific provisions of the bill:

Title I: Sustainable Development

By reference from Section 7209(b), foreign military and paramilitary forces may take part in sustainable development programs. Current law strictly prohibits such participation. Blatant violations of the ban on military involvement in economic aid was a major source of power for the repressive Salvadoran and Guatemalan armed forces in the 1980s. The ban should be enforced, not waived.

Title II: Building Democracy

2101 defines who could receive military or police aid under this title in such a way as to include every country in the world, since one can always find a way in which a country either is "in the process of emerging as a democratic society" or has some form of "democratic progress" that is being "threatened." There is no control and little guidance here.

2102(a)(1)(D) permits aid for the "establishment and professional development of non-partisan military, security and police forces." As noted above, I believe that we should not be strengthening poorly controlled security and police forces, and that we should be pushing for reduced armed forces, not "professionalizing them."

2102(a)(3) permits aid to "help meet security challenges on a transitional basis that threaten to impede or reverse democratic reforms or institutions." That's another all-encompassing definition, and by reference in a waiver later in the bill, it permits police aid to just about any country in the world.

2102(b) appears intended to limit military and police aid to "orienting" people to their proper role, but in fact qualifies 1 through 5 open up hundreds of avenues for continued, straightforward equipping and training. Again, 2102(a)(3) is referenced, meaning that any aid can be justified as meeting a threat to democratic reforms. This section is one of the parts of the bill that revives the IMET program.

Most disturbing in this subsection is the clause at the end, which reads, "the President shall consider the extent to which the recipients demonstrate a commitment to respect human rights and fundamental freedoms." * * * Well, we know how the President is considering those issues now, in that he has approved \$25 billion in arms transfers to repressive governments. The McKinney-Hatfield bill would force him to consider their human rights records, and only provide weapons if the records are strong ones.

Title III: Promoting Peace

3102(a)(2) permits aid for the "restoration of international peace and security and other programs carried out in furtherance of the national interest of the United States." That is a definition that defines away nothing.

3103 provides a general drawdown authority of \$100 million. This should be reduced to a few million dollars for U.N. operations, to guard against the abuses of massive drawdowns in the 1980s for El Salvador and Colombia. If we want to support international peacekeeping, we should first pay our arrears to ongoing UN efforts.

3204 has a drawdown authority of \$100 million for nuclear disarmament. But nuclear disarmament is a slow process, with no need to rush to judgment. The President can, as with all foreign aid, make an agreement with another country, and promise to try to convince Congress to provide the necessary funds.

3301(4) provides the rationale for military aid, and it is a poor one: to "preserve internal security, as well as to engage in collective defense." An unstable and repressive government's internal security is none of our business. We don't need to help them with counter-insurgency, low-intensity conflict or modernizing their armed forces; we need to advise them to permit political freedom and hold their forces accountable to law. And collective defense? That is a code word for regional arms races with U.S. weapons and others matching. It is the duty of the United Nations and its members to provide for collective defense; we should be advising countries to negotiate regional demilitarization programs, rather than fueling their arms races.

3302 also permits aid to anyone in the world with its broad statement of authority and purposes. There are, for example, no restrictions on U.S. funding for civic action by foreign armies, which is unwisely strengthening the political power of armed forces in the developing world. This is another place in the bill where IMET is revived, with none of the restrictions that Congress has placed on it in recent years.

3303 calls for a shift of resources from military to economic aid, but that is something that is impossible without the end of cash-flow financing.

3401-3406 constitutes Chapter 4 of Title III. This chapter brings into one protected place a number of failed police aid programs, such as anti-terrorism assistance, international narcotics control, and administration of justice. The restrictions of 3404 are too loose to rule out anyone's police forces. We're all against drugs and terrorism, but has anyone noticed that these programs have failed to stop drugs and terrorism, and have instead simply been a new conduit of military and police aid to unstable and repressive governments, like Colombia and Peru, and even Haiti? The dream of halting drugs at their source has turned out to be a nightmare. The President's new anti-drug policy stresses long-term economic development instead of direct attacks on trafficking. The foreign aid reform bill should be consistent with that policy.

Title IV: Providing Humanitarian Assistance

4101D permits the President to waive any law to provide relief assistance. I support the use of military assets to deliver emergency assistance, but I fear that this broad waiver will permit long-term military action when we should be building local, civilian capabilities to respond to crises. The rules for military involvement in humanitarian action must be tightened up, both here and in the defense authorization act.

Title VII: Special Authorities, Restrictions on Assistance, and Reports

7101 caps transfers between authorization in the bill at 10 percent of any item—and then exempts from this cap major portions of the military and police aid in titles II and III!

7102 is the waiver of all waivers: it gives the President total control over all laws (and as far as I can tell, this is the first time the Arms Export Control Act is even mentioned in the bill) and permits \$1 billion worth of prohibited weapons sales and \$500 million worth of prohibited military aid. Some of these authorities already exist in law, but if this is reform, why renew them? Frankly, I would be concerned about the constitutionality of this provision, since it reads like a line-item veto for foreign aid and arms sales.

7103 adds another \$100 million transfer authority for unanticipated contingencies.

7104 is the enabling legislation for police aid, and under this set of waivers, particularly the reference in 9 back to Title II's general purposes, everyone could be eligible for U.S. equipment and training, from cops on the beat to prison guards.

7107 has been a pet request for years of IMET program managers. It would permit IMET training for countries in arrears on U.S. aid loans, as long as the government in question is democratically elected.

7111 adds another \$100 million in drawdown authority from Pentagon stocks and \$150 million from the resources of any part of the government.

7202(e) is the old 502B human rights law, with some minor modifications. One of these modifications is harmless: a requirement that consideration be given to some new topics. And one is troublesome: the inclusion of the concept that the President should take into account the possible impact of a negative finding under this section. This implies that the President should go easy on governments that threaten to abuse human rights even more if there is a finding. Of course, the old national security waiver lives on. In contrast, the McKinney-Hatfield bill would both institute a meaningful, positive certification on human rights, and then make Congress any equal partner with the President in granting any waivers to it.

7209 would, as discussed under title I, let foreign military and paramilitary forces take part in sustainable development programs.

7305 picks up the current section 34b reprogramming authorities, although with the addition of a new national security waiver for the President. Reprogramming of necessity exists in a nebulous constitutional zone, but it has been an important tool of congressional control over fast-breaking changes in foreign policy. The Committee should review reprogramming's record to date, and identify ways that oversight could be improved.

Title VIII: General Provisions

8211 permits the use of foreign aid to pay the Pentagon's expenses for running military aid programs. Let the Pentagon pay for these programs and they may not be so eager to expand them.

8212 terminates in some cases the requirement for U.S. approval for retransfers of U.S.-sold military equipment by other countries. This strikes me as unwise, although I do not know the specific rationale behind this proposal.

8214 creates a non-appropriated foreign aid program under which we would take other nations' military students into our training programs without charge if they take some of ours on an ill-defined "generally reciprocal basis." This is a major loophole that could cover an entire new IMET program.

8405 continues the excess defense articles program, the fastest growing foreign aid program. EDA is the new spigot for military aid to developing countries, now that appropriated military aid goes to Mediterranean countries. All EDA transfers should be justified to Congress and approved like regular military aid programs. As it stands here, the President has complete control of the process.

8406 permits the stockpiling of arms for foreign governments, although at what appears to be full cost. This section needs additional scrutiny before its impact can be assessed.

8551, in paragraphs 19 and 20, sets rules for the transfer of excess defense articles, and also needs a full justification.

Title IX: Technical and Conforming Provisions

9105 provides "transition rules" for military aid, and as far as I can tell permits special breaks on prices and reprogrammings, which, barring a fuller explanation, I think this Committee should oppose.

9106 repeals a number of old foreign aid acts, but makes some specific exceptions. For example, (h) repeals the 1986 special foreign assistance act, except for section 1 and section 204, and (y) repeals the 1976 security assistance act except for section 1, 201b, 212b, 601, and 608. What are these exceptions? What is the impact of repealing all the other parts of these acts? I certainly don't know, but I would like to see a detailed justification before passing judgment on this provision.

Mr. Chairman, some might say that what I am proposing for security assistance is too dramatic. After all, I've recommended that annual congressional action be required before repressive governments are eligible to receive U.S. weapons and training; that there be an end to equipment and training for police, prisons, and other elements of internal security in countries where there is no rule of law to protect the citizens from these forces; that cash-flow financing for arms aid be banned, so that at least future congresses can reconfigure aid to the Middle East; that covert aid be ended; and that there be a concerted U.S. policy of seeking regional demili-

tarization pacts and World Bank lending conditions that significantly reduce forces and spending.

But am I really asking for anything more dramatic on the security assistance side than Brian Atwood and Dick McCall are asking for on the development assistance side, with their plans for an end to country programs, and for aid to be based on development performance, not diplomatic needs? I think not. This is supposed to be a plan to reform foreign aid, economic and military, to serve our needs in a world without a Cold War and a Cold War rival. Half a reform will be no reform at all; if economic aid is improved, but military aid and sales continue to promote instability, waste, and war, we will all have been wasting our time, and making false promises to the developing world and the American taxpayer. I look forward to working with you and the Committee to make sure that we achieve the necessary, full reform of foreign aid.

[Other material submitted by Dr. Rossiter may be found in committee files.]

Senator SARBANES. Thank you. Dr. Barkan?

STATEMENT OF DR. JOEL BARKAN, PROFESSOR, POLITICAL SCIENCE, UNIVERSITY OF IOWA

Dr. BARKAN. Thank you very much. As someone who has spent a large part of his career studying civil society and political institutions in what are termed under the act countries in transition, and as someone who has just completed 2 years advising USAID how to build democratic institutions in such countries, the perspective I can share with you this morning is the perspective from the field. That is to say, what are these initiatives likely to look like, and what challenges and problems do we get into when we try to implement a theory and put it into practice in the field.

I want to share with you about seven observations, time permitting. First, building democracy is fundamentally an institution in institution building, not the occurrence or nonoccurrence of a single event. The holding of a single multiparty election, even if free and fair, does not a democracy make—witness the experience in Angola, Kenya, and most recently Russia—rather it is the periodic holding of elections over many years. Institutionalization of the electoral process establishes the foundations for an enduring democratic system. Likewise with other institutions that we associate with democratic rule such as a judicial system, free press, et cetera.

Second, because it is a process of institution building, the building of democracy takes time. Countries do not make successful transitions to democracy in 1 year or even 5, they do so over a longer timespan. Thus, the United States, if it is to be effective in assisting other countries in building democracy, must recognize this fact by getting into the game for the long haul and staying in.

Third, because it is an exercise in institution building it is essential that the assistance be provided to local individuals and groups who are firmly committed to advancing the process of democratization over the long term. In the final analysis democracy will be built by the people of the countries making the transition to democracy, not by outsiders. Assistance cannot be provided unilaterally but rather via committed partners who seek our support.

To be effective our role must be one of facilitator, not initiator. This invariably means that not all types of assistance can be provided in all countries where USAID will operate such programs. All programs, therefore, will not look alike or unfold in lockstep.

Fourth, compared to conventional forms of foreign assistance, interventions to support the building of democracy need not be ex-

pensive. For example, in a typical African country any program that costs more the \$2 to \$3 million per year is probably too expensive. There just is not the absorptive capacity you need to spend more.

On the other hand, these programs require a constant or near constant field presence of appropriate trained and experienced staff. Both technical assistance and financial support in this area is most effective when it is provided in small and nonrepetitive packages which are often unique for each recipient group and which vary over time. Targeting the appropriate type of support to an appropriate recipient requires constant monitoring of the local situation.

Fifth, if the United States is to be effective in this field, the implementing agencies, particularly USAID, must have the flexibility to be able to provide appropriate support on a timely basis. Congressional restrictions which prevent USAID from providing such support, for example restrictions on providing assistance to particular countries, the Brooke amendment, or even restrictions on the training of police make it impossible at times to provide appropriate assistance when needed.

I therefore strongly endorse sections 7106 and 7107 of the proposed act which exempt assistance to local NGO's and training activities from various prohibitions.

Sixth, it must be recognized that different U.S. agencies have different and complimentary roles to play in the building of democracy abroad. Because of their political nature, USAID's programs to promote democracy and governance must be closely coordinated with the Department of State in Washington and especially in the field.

At the same time, State must recognize that it does not possess sufficient staff or the capacity to access appropriate technical assistance on a short-term basis, or to administrate these programs in the field. Put simply, the best approach is the country team approach in the field, supported by close consultation between USAID and state and home. Contributions by USAIA also call into this configuration.

Seventh and last, we must increase coordination with other like-minded bilateral donors with the International Monetary Fund and the World Bank. In terms of knowing what types of technical assistance to provide and how to provide it, the United States is unquestionably the world leader in this new emergent area of foreign assistance. There are many reasons for this, but it is primarily because USAID maintains a strong field presence in the countries where we have mounted programs because the Agency has been willing to draw on appropriate expertise outside their own ranks.

But the United States, however, cannot do it and should not do it all. We must remember that democratization is a universal value and that our programs are far more persuasive and less threatening in countries making the transition to democracy when they are conducted in concert with other donors.

As for coordination with the IMF and the World Bank, it is essential that the programs of structural adjustment and macroeconomic conditionality, not—repeat, not be pursued without consideration of what is occurring in the political sphere, both democ-

ratization and human rights violations. Indeed, in light of the large amount of quick dispersing aid provided by the IFI's, it may become necessary for the United States and like-minded donors to tie their subscriptions to the IFI's to an increased sensitivity by these organizations to the goals of democratization and the protection of human rights, especially if progress in these fields can be made.

Without such sensitivity, our programs in support of democratization may be undermined in some countries, while our contributions to these multilateral agencies directly sustain the viability of authoritarian and corrupt regimes.

Thank you.

[The prepared statement of Dr. Barkan follows:]

PREPARED STATEMENT OF JOEL D. BARKAN¹

INTRODUCTION

Thank you, Mr. Chairman. I very much appreciate the opportunity to appear before the Committee to discuss the exercise of building democracy as set forth in Title II of the proposed Peace, Prosperity and Democracy Act of 1994. As someone who has spent a large part of his career studying civil society and political institutions in what are termed under the Act as "Countries in Transition," and as someone who has just completed two years advising USAID on how to build democratic institutions in such countries, the perspective I can share with you is the perspective from the field; that is to say, what these initiatives will look like and what challenges must be dealt with when USAID and its sister agencies seek to put theory into practice.

Why the United States should assist the building of democracy abroad

Let me state at the outset that I believe that the objective of building democracy as outlined in Title II, is a desirable goal to which the United States can—and indeed already has—made a significant contribution. It is a laudatory objective for at least four reasons.

1. Providing assistance to other nations to facilitate their transition to or consolidation of democracy is in the national interest of the United States, because it is a known fact that democracies—while they may have profound differences—rarely if ever go to war with each other. A more democratic world is therefore a more stable, peaceful and prosperous world.

2. Now that the Cold War is over, the United States is no longer constrained by the demands of that conflict to cooperate and otherwise support authoritarian and/or corrupt regimes, and especially regimes that do not respect human rights and which are not legitimate in the eyes of the people they purport to rule. As the foreign minister of an African state remarked to me with a smile roughly two years ago, "we no longer have the kind of leverage over you that we once had."

3. Democracy is a universal value. While there is an American form of democracy, democracy is not an inherently American phenomenon. Nor is democracy inherently Western although a small number of Western countries were the first to evolve viable democratic systems at the level of the modern nation state. As a result, when the United States seeks to assist the building of democracy abroad, it is not, nor can it be, an exercise of imposing our system on others, but rather an exercise of helping democrats in these countries to realize their own values and aspirations.

4. Assisting the building of democracy abroad is both doable and affordable—indeed, the United States has already mounted imaginative programs in a number of countries to promote democratic rule. We have, for example, assisted the holding and monitoring of multiparty elections, supported the strengthening of civil society, strengthened democratic institutions of the state such as legislatures and judiciary, improved the standards of accountability within the bureaucracy, nurtured the development of a free press, aided groups engaged in the defense and promotion of human rights. I could go on and on.

¹ Professor of Political Science, and formerly (1992–94) the Democracy and Governance Advisor for East and Southern Africa for the United States Agency for International Development.

What types of programs are most likely to build democracy?

What do such programs imply for USAID and the Department of State?

If one accepts the premise that assisting other nations to build democracy is a desirable component of U.S. foreign policy, one must then turn to two operational questions about how this goal can be effectively pursued. First, what types of assistance are likely to have the greatest impact? Second, what does this imply for USAID and the Department of State (and also USIA) as they seek to implement these programs? My time is very short, so permit me to quickly make eight specific points on which I would be happy to expand during the question period.

1. *Building democracy is fundamentally an exercise in institution-building and not the occurrence or non-occurrence of single events.* The holding of a single multi-party election, even if free and fair, does not a democracy make—witness the recent experience of Angola, Kenya,² and most recently, Russia. Rather it is the periodic holding of elections over many years—the institutionalization of the electoral process—that establishes the foundations for an enduring democratic system. Likewise with the establishment of a free press, or an independent judiciary, or a viable party system, etc. The holding of a single workshop on investigative reporting, or the publication of a single magazine which thoughtfully considers the affairs of a country, does not guarantee the establishment of the desired institution.

2. *Because it is a process of institution-building, the building of democracy takes time.* Countries do not make successful transitions to democracies in one year or even five. They do so over much longer time spans. *If the United States is to be effective in assisting other countries in building democracy, we must recognize this fact by getting into the game for the long-haul—and staying in.* This also means, however, that we must target our interventions to support those exercises which are most promising for the building of institutions over the long run. We must likewise know when to refrain from providing support. For example, it may not always be in our interest or the interest of the country we wish to support to become engaged in a transitional election. Unless appropriate procedures are put in place before the election, and unless there is a commitment to build upon them afterwards, supporting the event alone may only legitimize a fraudulent exercise.

3. *Because it is an exercise in institution-building, it is essential that assistance provided by the United States be provided to local individuals and groups who are firmly committed to advancing the process of democratization over the long term.* In the final analysis, democracy will be built by the people of the countries making the transition to democracy, and not by outsiders. Assistance cannot be provided unilaterally, but rather via committed partners who seek our support. To be effective, our role must be one of facilitator, not initiator. This invariably means that not all types of assistance can be provided in all countries where USAID will mount DO programs. Hard choices will have to be made. All programs will not look alike or unfold in lockstep.

4. *Compared to conventional forms of foreign assistance, interventions to support the building of democracy need not be expensive.* For example, in a typical African country, any program that costs more than two to three million dollars per year is probably too expensive. This is because the required forms of assistance—small to medium size grants (e.g. \$15,000 to \$250,000) to local organizations, and various forms of technical services—are relatively cheap. Indeed too much support—financial or technical—can sap local initiative and thus inhibit the institution-building process. *On the other hand, these programs require a constant or near constant field presence of appropriately trained and experienced staff.* Both technical assistance and financial support in this area is most effective when it is provided in small and non-repetitive packages which are often unique for each recipient group and which vary over time. Targeting the appropriate type of support to an appropriate recipient requires a constant monitoring of the local situation, i.e. a detailed knowledge of the local political milieu, personal contact with the leaders of local non-governmental organizations involved in democracy-building work, contact with other bilateral donors, and last but not least, the confidence of the American ambassador and the director of the country mission of USAID.

5. *If the United States is to be effective in this field, the implementing agencies, particularly USAID, must have the flexibility to be able to provide appropriate support on a timely basis.* Congressional restrictions which prevent the

²For an elaboration of the Kenya case see my article "Kenya: Lessons from a Flawed Election," *The Journal of Democracy*, 4, 3 (July, 1993), pp. 85–99.

Agency from providing such support—for example, restrictions on providing assistance to particular countries, the Brooke amendment, or restrictions on particular activities such as the training of police and armed forces—often make it impossible to provide appropriate assistance when it is needed. We cannot, for example, presently provide support to an emergent public policy research center in Kenya or training for the members of that country's legislature because of Brooke. I therefore strongly endorse sections 7106 and 7107 of the proposed Act which exempt assistance to NGOs and training activities from various prohibitions. Much of what we provide in technical assistance to build democracy is in the form of training, and most local recipients of this training as well as financial support are local NGOs. For example, USAID has provided training to journalists, held workshops for political parties, and made grants to local human rights and legal assistance associations. Passage of these sections of the Act will therefore go a long way in providing USAID with the authority it needs to get on with the job.

6. *Overly restrictive procedures for the procurement of technical services by USAID must be loosened* if not eliminated in order to insure that appropriate technical support by private contractors is provided in a timely manner. While I am not suggesting that competitive bidding be eliminated, the process must be streamlined so that the time between the decision to provide a particular form of assistance and the actual provision of the assistance is shortened. *The same is true for the procedures which currently regulate the provision and administration of small grants to local non-governmental organizations.* In this regard, our procedures are often so complicated and time-consuming that some NGOs which are most effective in promoting democracy prefer to approach other donors rather than deal with the U.S. To be specific, groups in need of assistance often approach the Scandinavian countries, and the German party foundations before the U.S. because they are perceived as more "user friendly" donors.

7. It must be recognized that *different U.S. Agencies have different and complementary roles to play* in the building of democracy abroad. Because of their political nature, USAID programs to promote democracy and governance must be closely coordinated with the Department of State, both in Washington and especially in the field. At the same time, State must recognize that it does not possess sufficient field staff, or the capacity to access appropriate technical assistance on a short-term basis, or the capacity to administer grants to local governmental and non-governmental organizations seeking to advance the transition to democracy in their respective countries. Put simply, the best approach is "a country team" approach in the field supported by close consultation between USAID and State at home. The contributions to be made by USIA towards building democracy must also be brought into the loop. For example, a study tour to the US organized by USIA for a group of public interest lawyers or legislators should be coordinated with the embassy and AID mission to insure maximum impact on the participants. At the same time, USAID must be able to quickly move funds to its sister agency when it is clear that USIA can provide a service better than USAID itself or when it would take months to line up a private contractor (e.g. the purchase of books for the library of the Attorney-General's Office in Tanzania).

8. Last, but not least, *we must increase coordination with other like-minded bilateral donors, and with the International Monetary Fund and the World Bank.* In terms of knowing what types of technical assistance to provide and how to provide it, the United States is unquestionably the world leader in this emergent new area of foreign assistance. There are many reasons for this, but it is primarily because USAID maintains a strong field presence in the countries where we have mounted programs, and because the Agency has been willing and able to draw on appropriate expertise outside of its own ranks. The United States, however, cannot and should not do it all. We must remember that democratization is a universal value and that our programs are both far more persuasive and less threatening in countries making the transition to democracy when they are conducted in concert, and even on a joint basis via parallel programs mounted by other donors. Authoritarian regimes which seek to drag their feet on liberalizing their systems find it much more difficult to do so when confronted by a united front of like-minded donors.³ For the same rea-

³In terms of expenditures and personnel, the other principal players in mounting programs to support democratization are Canada, Denmark, Germany (via the foundations of the four major political parties), the Netherlands, Norway, and Sweden. The United Kingdom also supports democratization programs, but at a much lower level. The Ford Foundation is also very

son, citizens in these countries who seek donor help to support democratization initiatives, enjoy a greater degree of political cover when more than one donor supports their programs. Coordination is also desirable because it shares the cost of these programs, and because a greater sharing of information is needed to improve the quality of assistance in what is still an infant field. Coordination is most effective when it occurs in the field; that is to say, between the relevant staff of like-minded missions. Such coordination, however, should be complemented by greater coordination between headquarters if for no other reason than it will rapidly enhance the institutional memory of a diverse number of agencies around the world which now seek to build democratic institutions.

As for coordination with the IMF and the World Bank. it is essential that programs of structural adjustment and macro-economic conditionality not be pursued without consideration for what is occurring in the political sphere. Indeed, in light of the large amounts of quick-disbursing aid provided by the IFIs, it may become necessary for the United States and like-minded donors to tie their subscriptions to the IFIs to an increased sensitivity by these organizations to the goals of democratization and especially improved governance and a respect for human rights. Put differently, the IFIs must join the principal bilateral-lateral donors in recognizing the positive relationship between economic and political reform. Without such sensitivity, our programs in support of democratization may be undermined in some countries while our contributions to these multilateral agencies may indirectly sustain the viability of authoritarian and corrupt regimes.

CONCLUSION

Finally a word about accountability and measuring results. If USAID, via the proposed legislation, is given the flexibility it needs to mount DO programs in a timely and effective manner, what measures can be employed to determine whether the American taxpayer obtains appropriate results for his/her money? First, as set forth in the legislation, USAID does not intend to provide assistance to partners which are not committed to democratic reform. Second, and given the inherently long-term nature of the exercise, I urge that results be measured on an aggregate basis and after appropriate intervals in time. The test of the program, therefore, should not be whether there has been substantial progress in one or another particular country, but rather whether in the aggregate, more nations have made significant progress towards building democratic institutions at intervals of not less than every four to five years. We must expect that in some years there will be setbacks in this process. The bottom line should be whether the general trend is up especially in those countries where USAID provides assistance. For some, such methods of measurement may be too broad and the time-frame too long. In the history of nations, however, such a time frame is both realistic and relatively short. We need only examine the evolution of our own and other established democracies to confirm that the process of building democracy is not one that occurs overnight.

Senator SARBANES. Thank you very much, sir. Mr. Inglee.

STATEMENT OF WILLIAM INGLEE, EXECUTIVE DIRECTOR, THE HOUSE WEDNESDAY GROUP, U.S. HOUSE OF REPRESENTATIVES

Mr. INGLEE. Thank you very much, Mr. Chairman, and members of the committee for inviting me here today to talk about the security assistance provisions of the administration's foreign aid proposals.

Before proceeding I would like to also emphasize that the views that I will speaking to today represent my own personal views and not the views of the House Wednesday Group for whom I work.

Senator SARBANES. You are the Executive Director, though, of the House Wednesday Group, right?

Mr. INGLEE. Yes. Like most members of the committee, I agree with the administration's proposition that the Foreign Assistance Act of 1961 has been rendered largely obsolete by the historic

active in supporting the development of democratic institutions, but mainly in the area of human rights.

events of the past 5 years. In this regard, I think the administration has responded to initiatives that this committee and the House Foreign Affairs Committee undertook in the late 1980's and early 1990's to really rethink and reevaluate our policies in light of these very important developments.

In many respects the security assistance provisions of the Foreign Assistance Act were the most affected by recent historical developments. They were also perhaps hardest hit by many of the concerns that were enunciated in the late 1980's by both this committee and the House Foreign Affairs Committee in the areas of micromanagement, voluminous legislative language, conflicting detailed requirements for agencies and their undertaking of legislative responsibilities, as well as many of the provisions which were clearly obsolete in light of recent developments.

While none of the legislative provisions put forward at that time by the Committee on Foreign Relations or the Committee on Foreign Affairs became law, they did nonetheless form a very important institutional inheritance for the new, incoming Clinton administration.

I think on the positive side the security assistance account re-draft really does eliminate virtually all of the language that most of you and your staff identified as being impediments to good policy in the late 1980's period and the early 1990's.

The one problem that is very clear in the security assistance provisions of the administration's proposal, which I think is reflected in other parts of the bill judging from the comments made by other individuals on the panel, is that the new language is very, very vague. In many cases it does not have identifiable objectives. The policy integration is almost nonexistent. It is very hard to determine what they are replacing old policy with.

And so I think for the committee, perhaps this will be your most important challenge. How you assist the administration in really defining a cogent, well-defined security assistance policy. One that makes sense in light of new post-cold environment and that is different from the old policy, because the challenges are different, but nonetheless complements the other important economic assistance and democratic initiative components of this bill so as to make the whole package work and work well.

The architecture is there. Title III has the four principal components that really represent the new challenges—peacekeeping, non-proliferation, regional security, and international terrorism and narcotics. The difficulty is that in outlining their policy formulations for you, the entire title III think takes up only about 20 pages of your 277 page bill.

For example, counterproliferation which is the high point of the administration's foreign policy effort as well as one of the greatest challenges for the future as professed by the President himself, has been the subject of an extensive interagency review.

Yet the policy language in title III occupies about three-quarters of a page, just three short paragraphs, and it is really very unclear what they mean and what they say in this particular area. This vague language would make it very hard for you to do what I think you are looking at as one of your major objectives of this exercise, and that is to exercise effective oversight over executive branch pol-

icy. Clearly the legislative branch should give the executive branch the flexibility to undertake policy initiatives and then exercise effective oversight over what they do.

I think in this area title III is rather short on specifics and it will make it very difficult for you to really review carefully the activities taken in this particular chapter.

I think there is a similar problem in chapter 3 which deals with regional security assistance. I think we all recognize that the environment has changed. It is no longer simply a question of dollars. But that is really not what we should be discussing in this bill—is how much to spend on these programs.

What is important is attempting to identify what the new program will be. What type of security assistance program will help facilitate economic growth, peaceful development, and democratic institution building, and all of the other components of this bill. Chapter 3 really does not provide that kind of guidance for you.

Once again, I think it would be well worth your while to have your staff thoroughly rework this section in light of these new challenges, not trying to resurface or protect old cold war shibboleths, but really trying to take advantage of the bipartisan agreement that exists on the nature of the future threat, whether it be in counterproliferation or regional insecurities, and develop assistance programs that really do help countries defend themselves and protect us from having to come to their rescue when they are unable to do so.

Overall, I think the major policy considerations are clearly within your domain, but I would offer the following four or five observations or things that would be useful to consider in light of reviewing title III.

One, I think it is very important to develop a reasonable criteria for providing foreign security assistance. The objectives, the criteria, the tools—they need to be drawn out clearly in the legislative language so that as you exercise oversight over this process you have something to measure against.

I know in one of the miscellaneous sections of the bill there is a report required for title III chapter 1 peacekeeping. It refers to the President reporting on how successfully this program meets the objectives of chapter 1, of the peacekeeping chapter. There are no objectives in chapter 1.

It is difficult to draft very complex legislation like this, and I think what you have to make sure is that it is carefully integrated and it all makes sense. I think this is where there still needs to be a fair amount of work done.

I believe it is also important to remember that in present world emerging democracies will also need capable military forces of their own, sized to meet possible aggression. They must be small but nonetheless capable, or we will ultimately be asked to bear the final responsibility. Our program should be designed to assist the development or such a capability.

It is also very important to recognize in this new environment that peacekeeping, which is talked about in largely a rhetorical sense in the title, also requires capable forces. As you know from your own review of activities, whether it is in a Somalia or a Bosnia, it is not enough to have a political commitment to send

forces to a region. It is also extremely important that forces, once they are there, are militarily capable of undertaking the peacekeeping function they have been given.

If they are unable to do that, then it can be a political disaster as well as a military disaster. It also can mean that we will be asked to come in to rescue beleaguered peacekeeping forces. There is a tremendous military element to the new peacekeeping world that has to also be borne in mind as you devise your new security assistance program.

I also think that the East European countries deserve special attention. They have asked for NATO membership. We have in essence given them a Partnership for Peace Program that leads them in that direction. They will need to evolve in terms of their own military forces. There is a great deal of uncertainty in the region, and this should also be factored into your calculation.

Finally, the nonproliferation sections are very, very vague, and I think there is really no reason for this. We know that the administration has worked very hard in this area. The Congress has worked very hard in this area. There is a strong bipartisan commitment to do meaningful things in the nonproliferation area. This bill would certainly seem to be the place to start pulling together a Clinton architecture on nonproliferation that really has strong bipartisan support and is really designed to work.

So in closing I would just like to point out that the administration deserves a great deal of credit for having taken the inheritance which you left in the area of foreign aid review. They have eliminated the problematic parts of the old bill. They have made an attempt to begin the process of formulating a new policy. I think in this area you need to give them strong assistance. Therefore, I think the committee's deliberation on this bill will be very important.

And I would like to close my remarks once again thanking the committee for inviting me here. I had many worthwhile opportunities in conference with your staff and very much appreciated my time on the Foreign Affairs Committee and was very honored to be asked to testify before this subcommittee of the Senate.

[The prepared statement of Mr. Inglee follows:]

PREPARED STATEMENT OF MR. INGLEE

Mr. Chairman, Members of the Committee on Foreign Relations: Thank you very much for inviting me to appear before you today to discuss the security assistance and non-proliferation elements of the Administration's proposed "Peace, Prosperity, and Democracy Act of 1994" (HR 3765). I would also like to emphasize that I believe the Senate's consideration of this important Administration proposal is crucial. If the United States is to fashion a genuinely bipartisan foreign policy, one which will effectively meet the economic and military challenges of the next century, the Congress' active role in this policy formulation process will be essential to its success.

Before proceeding further, I would like to emphasize that the views I will be expressing today are my own, and do not necessarily represent the views of the House Wednesday Group or its Members for whom I work. I would also like to add that while I do not agree with all the elements of the Administration's proposal and I will in fact be critical of numerous aspects of their overall approach to security assistance, I intend to offer my criticisms in a constructive manner, suggesting alternative ideas wherever possible. This is very much in keeping with the Wednesday Group's long tradition of pursuing positive policy ideas which protect and support the interests and needs of the American people.

COMMON STARTING POINT

Like most members of the Committee, I agree with the Administration's proposition that the Foreign Assistance Act of 1961 has been rendered largely obsolete by the historic events of the past five years, particularly the collapse of communism in the former Soviet Union. In this regard, the Administration has adopted a bipartisan theme begun in the late 1980's when senior Democratic and Republican members of this committee and the Committee on Foreign Affairs in the House of Representatives determined that a major rewrite of our nation's principal foreign aid legislation was long overdue. In the House of Representatives this consensus was based largely upon the following common assumptions:

- the size and complexity of the Foreign Assistance Act of 1961 greatly neutralized its effectiveness as a tool for meaningful and reasonable congressional oversight and direction of our nation's foreign aid process;
- policy language in the bill had become so voluminous and at times contradictory that the bill itself no longer represented a coherent, internally logical exposition of U.S. foreign policy;
- the detailed legislative direction provided to certain programs was in fact so burdensome that in many cases it seriously impeded the effective and innovative management of those programs;
- the detailed legislative direction provided to certain key areas of U.S. policy, whether it be through use of specific statutory policy language or the practice of earmarking, constituted an unacceptable and often counterproductive level of congressional "micro-management"; and,
- many portions of the Act were clearly obsolete, with the remaining elements increasingly inadequate to meet the challenges of the rapidly changing world of the late 1980's.

While not everyone in the Congress, the executive branch, or the private sector agreed with all of these concerns, these basic assumptions did nonetheless combine to make a compelling argument for change, one that the Congress and the Bush Administration attempted to respond to through a series of foreign aid bill rewrites in the late 1980's and early 1990's. While none of these measures were enacted into law, the basic assumptions upon which they were promulgated did form a valuable inheritance for the incoming Clinton administration.

In this regard, the Administration and the Congress are to be applauded for the initial efforts embodied in HR 3765, the "Peace, Prosperity, and Democracy Act of 1994". This bill as drafted significantly reduces onerous legislative language, deletes obsolete provisions, establishes more uniform waiver authorities, decreases the number of earmarks, lessens policy and programmatic "micro-management", and begins the necessary process of updating U.S. foreign aid policy in the post Cold War era. However, I believe that on this last and perhaps most important point the Administration's proposals are disturbingly inadequate in the area of security assistance.

SECURITY ASSISTANCE AND ITS RELATIONSHIP TO THE PROMOTION OF PEACE, PROSPERITY, AND DEMOCRACY

Title III of HR 3765, entitled "Promoting Peace", appears to be the Administration's attempt to reformulate the key tenets and long-term rationale for traditional security assistance in a manner that will respond to the new security challenges of the coming 21st century. Unfortunately, a careful reading of this rather short Title suggests that when it comes to key security issues like non-proliferation or regional peace, security and defense cooperation, the Administration's proposed policy statements in these critical foreign policy areas are at best anemic, vaguely formulated, and more suitable as "Whereas clauses" than cogent policy statements on such critical national security issues.

Title III is divided into four different Chapters: Chapter 1 dealing with Peacekeeping, Chapter 2 dealing with Non-proliferation, Chapter 3 dealing with Regional Peace Security and Defense Cooperation, and Chapter 4 dealing with International Narcotics, Terrorism and Crime Prevention. Of the over 277 pages of the Administration's proposal, this very important policy Title, which one would expect to contain the policy foundations for its four critical security Chapters, comprises a mere 20 pages. Section 3201, "Statement of Policy", of Chapter 4 (Non-proliferation) devotes only three-quarters of a page to explaining the Administration's foreign policy on what the President himself has cited as one of the most important foreign policy challenges for his Administration—proliferation.

At the same time, Chapter 3 which is devoted to Regional Peace, Security and Defense Cooperation comprises just a little over two pages of double spaced text. I do not want to confuse quantity with quality, but the Statement of Policy Sections of these two Chapters clearly do not constitute a cogent, well-thought out and con-

vincing U.S. policy in these two extremely important security areas. Furthermore, the weakness of Title III's policy language is compounded by the absence of any clearly delineated program of policy implementation for these critical areas. While these Chapters include Sections dealing with the "Provisions of Assistance", they are only notional lists of what the Administration may provide in terms of assistance, as opposed to outlining a detailed program of activities which is truly "result-oriented".

As a result of the weakness of this Chapter, the Administration has failed to clearly validate one of the provisions of the Foreign Assistance Act of 1961 which still remains relevant today, namely "the principle of effective self-help and mutual aid". Equally disturbing, the Administration also fails to achieve one of the most important goals of Congress' bipartisan efforts to streamline our nation's foreign aid legislation, which was to develop a convincing, clearly articulated foreign policy which would enjoy the support of a large segment of the American public.

OBSERVATIONS AND RECOMMENDATIONS

Mr. Chairman, I believe the Foreign Relations Committee is in the position to greatly assist the Administration in strengthening the security assistance provisions of this draft bill. Because I know the Committee is well-positioned to deal with the broad policy questions in Title III, I will simply offer the following observations and recommendations on some policy options the Committee could consider when it reviews and marks up Title III.

Develop a Reasonable Criteria for Providing Security Assistance for Those Countries With Legitimate and Identifiable Needs.—Democratic and Republican Senators alike recognize that many of the challenges of the Cold War period have now disappeared. At the same time, they also agree that certain threats still remain, whether it is in the area of weapons of mass destruction or from pariah states like Iraq, North Korea or Thibya. It is not necessary for the discussion of this bill to dwell simply on dollar amounts for security assistance. It is more important that the Committee ensure that this bill establish the objectives, criteria, tools and long-term goals of a security assistance program which is genuinely responsive to the threats and challenges of the post Cold War era.

Remember That Emerging Democracies Need Capable Armed Forces Just Like We Do.—Properly implemented and targeted security assistance in the form of military hardware and comprehensive training can be an extremely important tool complementing U.S. diplomacy and U.S. sponsored democratic institution building in nations struggling to overcome regional tensions and economic underdevelopment. Professional militaries, sized to meet regional military threats, benefiting from the civic education programs found in other parts of the Administration's bill, can be an important stabilizing element ensuring a nation's peace and prosperity.

Peacekeeping Forces, Whether They Include U.S. Forces or Not, Must Be Capable of Carrying Out Their Mission.—An important prerequisite for successful peacekeeping operations in the future, particularly for those which do not include U.S. forces, will be that contributing nations have capable, well-trained and well-equipped peacekeeping units. As the United States attempts to more equally share responsibility for peacekeeping operations with other nations, ensuring that units from other nations are equipped to capable of executing difficult peacekeeping missions without U.S. participation will be quite important. It is also likely to decrease the demand for U.S. involvement in peacekeeping activities in the future. Furthermore, equipment rationalization, standardization and interoperability are all critical components of any successful military operation, peacekeeping or otherwise.

The East European Democracies Deserve Special Attention.—Given the importance placed by the Administration on the successful evolution of the East European countries toward sustainable democracy, combined with their strong interest in NATO membership and active involvement in the Partnership for Peace Program (PFP), there is a strong argument to be made that the transition from Soviet made equipment to NATO compatible equipment should be begun in the near future and that is consistent with and will support their participation in PFP training activities.

Non-Proliferation Activities Are An Important New Element in the Foreign Assistance Equation.—The Administration is correct in identifying non-proliferation as an important new element of U.S. aid policy. However, the Non-Proliferation Chapter of Title III is an empty policy shell which does not provide the Congress or the American people with a clearly articulated idea of how the Administration intends to integrate this new functional requirement into the U.S. aid program. The arduous Presidential Review process on Proliferation has reportedly been completed but to date its application to Clinton foreign policy has been little more than rhetorical. Clearly the Administration is justifiably occupied by such major proliferation prob-

lems as North Korea, but that is not an excuse for failing to begin the process of integrating the essential architecture of Clinton counter-proliferation policy into all aspects of U.S. foreign policy. HR 3765 would be an excellent place to start.

CLOSING REMARKS

To conclude Mr. Chairman, I would like to offer the following observations. I believe that the Administration's proposals as embodied in the "Peace, Prosperity, and Democracy Act of 1994" are a welcome attempt to reformulate the active instruments of U.S. foreign policy in a way that makes them relevant and efficient in meeting new challenges. In doing so, the Administration's proposals are appropriately multi-pronged. The Administration is very attentive to the economic front, emphasizing sustainable development (Title I) and trade (Title V). Furthermore, Title II, Promoting Democracy, lays out a strategy for democratic institution building that is likely to enjoy strong bipartisan support. In emphasizing these three factors, the Administration is clearly trying to develop a policy which will foster an "environment" in which nations can prosper in peace and in which democracy will flourish. The weakness of Title III is therefore very worrisome. For the security concerns of individual nations are also important "environmental" factors—factors which are likely to strongly influence the success or failure of the other elements of the Administration's plan.

Thank you, Mr. Chairman.

Senator SARBANES. Thank you very much. This has been a very helpful panel and we really appreciate your contribution.

I have just a couple of questions that I want to put to you. First of all, on the human rights issue. To address it would we need another title? Should we take the title that is focused on democracy and make it democracy and human rights, assuming we agreed with the essential thrust of your statement that it needs to be given a greater focus and a greater stature? How would you suggest doing that?

Mr. FRASER. Mr. Chairman, the proposed amendments that we submitted would strengthen title II. It would build into title II, which is building democracy—it would change the title of title II to the building of human rights and democracy.

Senator SARBANES. All right. I wanted to ask Mr. Conahan from the GAO, you have submitted a report about what they are doing to the Arms Export Control Act I gather, or that is covered in your statement?

Mr. CONAHAN. Yes, sir.

Senator SARBANES. Could you just briefly summarize how you perceive that?

Mr. CONAHAN. Our principal concern is that it carries over the prohibition against retransferring defense articles and services, but then provides exceptions to certain countries. These are primarily our NATO countries plus other allies.

What it does is it permits them to do a couple of things that they were not authorized to do before without prior consent. No. 1, it permits them to authorize the transfer of certain items. Second, it permits them to buy smaller components of items and put them together, and then retransfer those without prior consent to countries that the United States likely would not otherwise transfer them to. There are also some changes with respect to the penalty provisions of that legislation.

Senator SARBANES. Well, my impression is that an incredible degree of flexibility is being sought in the handling of military assistance, is that correct, in this proposal?

Mr. CONAHAN. Yes, sir, generally across the board, not only with respect to security assistance but I might say with respect to the

entire contents of the bill. I believe that there are over 30 provisions in the draft legislation that essentially say, notwithstanding any other provision of the law, the President can do thus and so. That is just a tremendous amount of flexibility in this bill.

I think that we need to take a very close look at whether that is the proper way to construct this kind of legislation.

Senator SARBANES. Do the rest of you agree with that perception?

Dr. ROSSITER. Yes, sir, I do, and I have identified here a number of those. I do not think I got to 30, like Mr. Conahan did, but a remarkable set of waivers even after the very bland language of titles II and III, which already gave the President authority to give military aid anywhere that he sees democratic progress being threatened and to establish nonpartisan security forces, or to restore international peace and security and other programs in the furtherance of the national interest.

That is just in titles II and III. The waiver authorities in title VII are, frankly, remarkable.

Senator SARBANES. They supersede even those broad ones.

Dr. ROSSITER. Absolutely.

Dr. BARKAN. I will speak again only in respect to section 7106 and 7107, which I mentioned in my testimony. The problem is if you are doing interventions in the democracy field or, for that matter, trying to assist human rights groups you have to move fairly quickly. And if you have to get a waiver every time it takes weeks.

One thing I skipped over in my testimony, but it is in my written statement, is simply procurement procedures. To repeat what Andrew Natsios said in the first panel, sometimes aid moves like a tortoise. I think this is one of the main motivations in trying to seek a greater flexibility is that the Agency can implement the very job you and the American people would like it to do.

So, there is obviously a sort of double bind here. Too much flexibility loses accountability, but too narrow specification, one simply cannot get the job done. And I would argue particularly strongly in respect to assisting nongovernmental organization compared to other donors. We move very slowly in this area to the point that often groups which would seek our assistance, a local human rights group, a local press association will go other donors rather than us simply because they can get the support faster. And yet in terms of our technical knowledge of what to do in these areas, as I mentioned in my testimony we are often the world leader. So, we lose an opportunity to play a coordinating and leadership role in these respects.

Senator SARBANES. Well, that is an interesting perspective. Mr. Inglee?

Mr. INGLEE. In a way, the administration has exceeded your wildest dreams from the late 1980's, when you first began to look at the whole issue of micromanagement. The bill is very, very flexible from their perspective. Perhaps they decided to start with that approach to see how far they could get with the process of negotiating this very important legislation with the Congress.

To me the biggest problem with this proposal is not the question of flexibility in the language. In the security assistance provisions they really are not specific to begin with. I think the committees

have always viewed or rationalized giving the administration more flexibility by ensuring that well thought out policy was captured in the legislation. Then you as a committee could exercise oversight over their activities to really determine whether or not they were carrying out the policies that were part of the covenant that the Congress and the administration had agreed to.

The language does not accomplish that for you. The waiver authorities are valuable to an administration when you have specificity in terms of what you can or cannot do. In many respects they do not need these waiver authorities because they do not have a lot of specificity in terms of what they have to do or do not have to do.

It does not bother me to have a section 7201 waiver authority that can be applied to all parts of the bill because in the old Foreign Assistance Act you had section 614, as well as about 40 or 50 other waivers. In the past everytime you drafted a particular provision there was an individual waiver authority attached with slightly different criteria.

In a way what they have done is logical because now you have a single or virtually a single waiver authority that can be applied to different parts of the bill. And as you know, waivers have to come up to you, and while they are rarely denied, at least you have a strong opportunity to review them.

I think the bigger problem is they will not have to use them very often to begin with because the nature of the policy formulations do not require them.

Senator SARBANES. OK. Thank you. Senator Kassebaum?

Senator KASSEBAUM. I thought all of the testimony was very interesting.

Mr. Conahan, in yours you went through a number of things that I thought were particularly good analysis, and you reflected early on that there was no overall direction for the democracy development. Is that not correct?

Mr. CONAHAN. That is correct, yes.

Senator KASSEBAUM. And I thought Dr. Barkan sort of filled in some of the observations there, and Mr. Bissell touched on that earlier as well. This has troubled me that this is kind of a whole new arena, and now everybody is trying to get in and we are really not sure where everybody is going to be.

I'd like to ask Dr. Barkan, or anyone else who would like to answer, when you evaluate the level of coordination between AID and the State Department and USIA, where does the National Endowment for Democracy fit in or the Democratic institute or the Republican institute? And who knows what everybody else is doing?

Has anybody taken a look at that question?

Dr. BARKAN. I can fill you in from sort of day-to-day involvement in this area.

Let me begin with one overall comment before I get directly to your question. This is a new field, and like all new fields we have to be up front about it. There is a certain amount of experimentation and there is a lot of learning.

It is my own belief that AID has gone about this in about as methodical a way as possible. It began in the latter stages of the Bush administration, and we have only been doing this for about 2 years.

The number of programs actually on the ground now, other than election observation, is relatively small. And the best part is the programs that are coming on stream are well designed, and we have not made any mistakes.

Now, to move more specifically to your question on coordination and why I talked about and emphasized the country team aspect of it. These are hybrid programs. They are not conventional AID programs.

When this whole thing began to unfold within the Agency there were many people who were nervous about it. Picking up on Andrew Natsios' statement, the appropriate personnel was not in-house. That is why people like myself, political scientists, have been drawn in from the outside as personal service contractors. In fact, most of this program is now in the field running on such a basis.

In order to make it work in the field, but also here in Washington, is literally—without going into too much of a digression on my work in Nairobi, Kenya, for example, and counterparts in Addis Ababa—I spent a good part of my day moving back and forth between the AID mission and the Embassy. It is like I worked for both, and in a way that has to be because the chief of mission, the Ambassador, has to provide political cover.

And this is particularly true in what are the majority of cases, what I call hard cases, the gray countries such as the Kenya's, where achieving democratization and protecting human rights are done in the face of regimes that are not particularly enthusiastic about that.

That is precisely why we have to work directly with NGO's and why you need some of these waiver authorities. But it is also why you have to consult very closely with the State Department, with the Ambassador. You have to consult closely with other donors. And to pick up now on another point that Andrew Natsios made, there is a lot of informal coordination between other donors working in this area.

Turning last to the National Endowment for Democracy and the party's institutes, the NED does very good work but their budgets are relatively small. In Africa, for example, they have one person in Cairo for the entire region. They are unable to maintain a field presence which, as I argued in my testimony, is essential in this area. That is where AID has somewhat of a comparative advantage.

As for the party's institutes, up until now they have been primarily concerned with the monitoring of elections. They assemble large numbers of people who come out on a pro bono basis and who cannot stay in these countries.

I think what they are beginning to realize, in fact I think there is a real learning process here, is that while elections will continue to be an important area of activity, it is more important to put the party's institutes and other interested groups who do this work—to establish a field presence to keep their people in the field, develop relationships with local NGO's. That is the way you build the institutional type of structures that I talked about earlier.

And just a final sentence. In the example I just gave, this is an example again of what I meant by learning. Two years ago the par-

ty's institutes were not doing this. Now, both NDI and IRI, for example, have semipermanent office and may become a permanent office in Johannesburg. That is a case, for example.

Mr. CONAHAN. Senator Kassebaum, I quite agree that in recent years a lot good work has been done in this area, and I do believe that some coordination has taken place. I believe that more coordination is required, as you suggested.

I think, however, we have to take a look at the current proposed legislation even before we get to implementation. We have to take a look at the design and the plans for implementation.

We have got a title, sustainable development, under which we have support for democratic participation. Then, of course, we have got the entire title on building democracy. Now, if you take a look at the two chapters one goes to Central and Eastern Europe and the other to the former Soviet Bloc. You have got yet a third title called countries in transition.

Now, I suggest that a reading of the proposed legislation will not sort any of this out at all. If you go to the President's budget this year it begins to sort some of it out.

But with respect to the two big provisions that I just talked about, support for democratic participation under sustainable development, and countries in transition under promoting democracy, the justification in the President's budget reads remarkably similarly in both of those sections.

And I have a little difficulty in sorting out up front what agencies are going to do precisely what. And I think we need to work on that before we conclude on this legislation.

Senator KASSEBAUM. I would gather that all of you would agree that, as Dr. Barkan pointed out, a key is institution building; that we tend to think you can just go in and monitor an election and then, sort of, you have democracy. It takes a sustained effort.

Which institution building do you think is most important? Let us take Kenya, Dr. Barkan. Should there be a priority on our focus in the institution building process?

Dr. BARKAN. This again gets back to why the Agency in the field needs a measure of flexibility, and also my statement about why it has proceeded fairly methodically.

In this area, another point I made in my presentation is it is not like enlarging a family planning program where you order another two or three million contraceptives. It is a series of small interventions that in effect roll with the political lay of the land.

Now, this may sound rather vague, but what AID is doing is, first of all, very clear at least in Africa—a very clear process of first on a country-by-country basis conducting a broad assessment as to what the opportunities are. And then, to get to the Kenyan situation as one example, there are clear criteria for prioritizing what you do because you cannot do everything.

The biggest need in Kenya and most other places that constitute these hard cases is creating institutions of countervailing power.

A second criteria, as I indicated in my testimony, is are there willing partners with whom you can work, because you cannot create institutions if you do not have the partners. That means you may want to do something but you cannot do it.

Other donors have programs as well and sometimes it is just best to let them do it. The Ford Foundation, for example, is much better in the area of human rights, et cetera, so there are prioritizations. It is not all touchy-feely.

But you have to have the flexibility in the field and you have to have a trained field presence. That is the main point I want to make.

Senator KASSEBAUM. I would just like to comment a minute, talking about human rights, about sort of establishing a certification. I would only suggest, though, that we have run into a lot of trouble when we have certification of the aid moneys that we are going to give if a country has not met certain standards on drug initiatives. And we get into this every year on whether there has been the proper certification. Has Mexico met all of the requirements on certification? And if not, should aid moneys be cut off?

I worry a bit about a rigidity of certification. And I think an example of where flexibility is important again goes back to Kenya where strong messages were sent to President Moi about human rights behavior in Kenya, and then aid assistance was cut. But it was not necessarily that there was a certification out there. There was some flexibility in addressing that.

It has given us real heartburn here as we have always come up with the annual report on the drug issues.

Mr. FRASER. Senator, I think the way the human rights standards are used needs to be thought through carefully. The injunction on security assistance, which became a standard that was applied to economic assistance in our vote in the World Bank and so on, all referred to a consistent pattern of gross violations of internationally recognized human rights, and then went on to define them as—and I am now reading from language in the amendments, but it is similar—torture, cruel or inhuman or degrading treatment, prolonged arbitrary detention, causing disappearance, and other flagrant denials of the right to life, genocide, ethnic cleansing.

These are not the same things as, "Did you allow a free press?" "Did you have an honest vote, an election?" "Are you pursuing drug issues?" These earlier standards are rather fundamental sort of core issues involving the integrity of the person. As the chairman pointed out, even authoritarian governments can treat people decently. They may not, but they can.

So, I think any imprecise use of human rights standards tends not to serve our interests. We need to clear about what it is we are trying to do as a Nation, particularly in a unilateral sense. It is a different enterprise if we are responding to a finding by a U.N. agency, the Commission on Human Rights or something of that kind. My hope is that we can preserve this cluster of core rights as the standard that we are talking about.

When we get to other questions about free elections and so on, and promotion of democracy, there I would agree that considerable discretion is warranted, and partly because what we then want to look for are trend lines.

We cannot fix countries. They essentially have to grow—I think my own view is—they have to grow democracy from within. And if they are moving in the right direction then perhaps we should try to encourage that and provide support. But I worry that we

sometimes have the sense that we are going to fix things around the world, and I do not have much confidence in that.

Our efforts on democracy are not new. We had the American Institute for Free Labor Development which the AFL-CIO ran. We had title IX to promote local democratic institutions. That has been in the books for years, along with section 116 which provides money to help in human rights efforts.

So I lived in the Congress through the period of the Alliance for Progress and we had a lot of democratic regimes in Latin America. They all kind of went sour. I do not think it was lack of institutions that caused the colonels in Greece take power or Allende to get killed and Pinochet come to power. Those setbacks had to do with more fundamental issues. Some of them deal with equity. They deal with the very tough issues of the Third World.

I often think of the Third World conditions today as somewhat comparable to what we experienced in the depths of the depression in the thirties. We had extraordinary numbers of people out of work with little hope that the economic system would progress. Trying to sustain democracy in light of those economic inequity issues is difficult.

I am not trying to say we should not work at it. I just think we need to work on it, on the one hand, but then stay tied to these core rights which involve the integrity of the person as another initiative.

Senator KASSEBAUM. I very much appreciate the thoughtful testimony of everyone. Mr. Inglee, I think it would be wonderful if we could work on some more specific nonproliferation language. Getting specific there, again, sometimes proves to be difficult.

Mr. Conahan, I thought your observations on the peacekeeping provisions and also the police provisions were very thoughtful. Thank you.

Senator SARBANES. Thank you. Senator Jeffords?

Senator JEFFORDS. Mr. Inglee, I think for the record I would appreciate having it noted that I was a member of the Wednesday Group when Bob Stafford was a charter member, so I am aware of your competence in these matters. But you did allude to your expertise from service, I believe, on the Foreign Affairs Committee. Would you like to state for the record where your expertise comes from and why you are here?

Mr. INGLEE. Well, I spent a number of years in the Congressional Research Service working on foreign affairs and security issues. I also was a senior staff person on the Foreign Affairs Committee on the minority staff. For the past 3 years I was the Deputy Assistant Secretary of Defense for Conventional Forces and Arms Control Policy, Principal Deputy Assistant Secretary for International Security Policy, and for a short time the Acting Assistant Secretary for International Security Policy of the Defense Department.

I am now the Executive Director of the House Wednesday Group. While we have broad domestic policy agenda, we also have a very substantial national security strategy project in conjunction with the Center for Strategic and International Studies.

I very much appreciate the opportunity to testify today precisely because of the long tradition you have been part of on the Wednesday Group. On the one hand, I recognize that there may be short-

comings in this bill, but I have made every attempt to offer positive and constructive policy alternatives that will enable any administration to undertake good government policy that will benefit all of the American people.

Senator JEFFORDS. This is a general question to all of you. Looking through the bill, it appears as though provisions on military assistance are scattered throughout the bill rather than adhering to one particular standard or philosophy. Do you think that is a good idea or should we have the military assistance more specifically delineated with respect to criteria?

Mr. CONAHAN. I think that that is a difficulty with the bill. In getting through this bill I had some rather important questions, and those questions did not begin to get answered until I began looking at his year's fiscal year 1995 budget submission. Now perhaps when the detail behind that comes in we will even have more questions answered.

But once you get by the Middle East recipients it is difficult to see what if any funding is in the legislation for some traditional recipients of security assistance. We have had both foreign military funding as well as economic support funds going to about a dozen or more countries each year and it is very difficult right now to see where that funding would come from by reading of the bill.

As I say, by looking at the budget it becomes a little clearer but not totally clear in the information that is currently available. Perhaps as the detail becomes available we will see that.

Senator JEFFORDS. Don't

Mr. FRASER. I think our concern focuses more on the waiver issue. For example, under 502(b) it used to take extraordinary circumstances to proceed. Now I think the language simply says national interest. That is a fairly weak standard. It just about wipes out any kind of restraint.

Senator JEFFORDS. Are there comments? Mr. Inglee?

Mr. INGLEE. The old 614 language was "important" to the national security interest. The new language is important to the national security interest, and with respect to arms transfers it is essential to the national security interest, which was a higher language than the previous 614, if I am not mistaken.

Still, of the waiver authorities of the bill it is the most rigorous. It is just a question of what will you be using it for? You do not have many obstacles in your way, at least the administration does not thus far.

Senator JEFFORDS. Dr. Rossiter?

Dr. ROSSITER. Senator Jeffords, I think you have to look at a proposal like this in the context of what this administration is doing. Clearly an administration that was squeezing off arms transfers to undemocratic governments and working with our allies to get them to squeeze them off you would want to give more flexibility to in these military sections that are scattered around. Maybe it would not be as big a problem because you would know where they were going.

But an administration that talks about promoting democracy and goes and looks at elections and puts a little money into that, but at the same time grabs every possible arms sale around the world to a level of \$25 billion last year to undemocratic governments, I

do not think you want to give them a lot of flexibility because you know what it will mean.

We seem to be falling into the trap of, you know, if we do not sell to a government like Indonesia or Saudi Arabia or Kuwait somebody else will, and so therefore we want to grab the sale, as opposed to the way we work on chemical weapons or landmines. We do not think that these should be going to these kinds of governments. They are not going to become democratic if you are giving them the means to preserve their dictatorship. And we should work with the British and French and Russians, who are close allies of ours, to close off those arms sales.

That is why I think that the coalition of arms control and human rights and development groups that has come to you with this code of conduct on arms transfers frankly is here, because the first place you go, of course, is to an administration. They have rejected that approach. They do not want to limit their arms sales to governments that are undemocratic. It therefore is incumbent upon the Congress to take that step.

Now, I think it is important to point out that all this flexibility already exists. Congress has a very good mechanism called reprogramming in which if the administration wants to change policy during the year they come to you and you look over it. Sometimes you can say no, and it is sort of a gray area.

I think that has worked in the past. What we are proposing for the future is that, for example, if the President cannot certify early in the year that a Saudi Arabia or an Indonesia promotes democracy under these nice definitions and protects human rights with these good definitions, that is fine. Congress could include an amendment in the bill saying, we nonetheless want to give them access to the Arms Export Control Act. Right now you have no say in that matter; it is all the administration.

Would we be here asking for you to give yourself that authority if the administration had a predilection in that area? Probably not, but they have shown their orientation in their first year.

Senator JEFFORDS. You have set out a rather strict code. Can you tell me whether any of the recent large arms sales would have met your criteria?

Dr. ROSSITER. I think the code is a moving target in the sense that the purpose of it is to be laid out there in law so that next year governments would see that they would not be able to get U.S. weapons without a special congressional waiver if they had met it. So, you would probably see a different human rights record, and that is the goal really, on the part, say, of treatment of women by Saudi Arabia or treatment of people of East Timor in Indonesia as people tried to meet these standards.

Just because there are debates every year about whether Mexico is one kind of government or another, and it is very troublesome, does not mean it is not a good debate to have.

So, I think as we got to next year certainly you would see some countries being unable to claim that they were promoting democracy who are big purchasers, such as Saudi Arabia and Kuwait and Indonesia. However, Taiwan and South Korea—a good case could be made by the administration that good progress had been made. I think it would add an incentive for countries.

And let me just say——

Senator JEFFORDS. I don't believe you answered my question.

Dr. ROSSITER. Well, I could go back to last year's and tell you who I think would not have gotten them.

Senator JEFFORDS. That is what I asked you or a I thought I asked you.

Dr. ROSSITER. Saudi Arabia, Kuwait, Indonesia.

Senator JEFFORDS. Would or would not have?

Dr. ROSSITER. They would not have been permitted. They certainly, according to the State Department country reports on human rights, have made no progress toward becoming democratic governments and the human rights records are abysmal.

Senator JEFFORDS. Don, I would agree with you that one election does not make a democracy, and I think that is something we have to recognize. I am concerned that our policies right now do not seem to do that. We do not seem to have enough aid or assistance diverted toward building the infrastructures for democracy and providing the expertise to help make those infrastructures work. Do you agree with that?

Mr. FRASER. Well, there are probably three components, I think, to the democratization process. One is trying to get enough economic equity in the country so that you do not get violent forces at work. Second is the institution building. But the third is the notion that the people within that society have to accommodate, as a part of the political culture, the restraint and all of the values that make a democratic system work.

So, an election dumped into the middle of a fragmented society does not bring necessarily the results that you want. So, I think in terms of the U.S. interests, we want to see these things happen in a constructive way so that over time there will be more and more stable, genuine democracies.

Probably the biggest back-pull, the sea anchor on that process, is the lack of economic progress, the lack of meeting basic needs for large parts of the populations in these countries and that is a long-term effort.

But I think we have to be helpful on all of these fronts but not be overly optimistic about our ability unilaterally as a country to have a large impact, particularly when our aid program is so modest outside of the big three countries. So, it will be a long-term effort.

I think in the meantime we need to build international institutions. We have, in my longer testimony, cited an instance where we had offered economic assistance to a police force. This was a story recounted from the Center for Victims of Torture which we have in the city of Minneapolis. I was going to cite this to you.

Just let me read this one paragraph. Recently an associate for the Center of Victims of Torture, which is based in Minneapolis, visited a treatment center in a Third World country. She inquired whether the center would consider receiving financial support from AID. The director of the center told her he could not accept AID support because police in his country had received training from AID and they were later involved in human rights abuses. The credibility of his organization would be jeopardized if they were to receive support from AID.

That is simply an indication of the sensitivity that is involved here in U.S. connections with the different institutions in a country. So, I think we need to proceed with some caution and some careful thought.

Senator JEFFORDS. Are there any other comments?

Dr. BARKAN. I have a comment about equity, at least in respect to Africa, and we are now talking about macroconditionalities as well because there is a constant question here of the sequencing—economic growth or political reform and political development. The fact of the matter is that countries which have gone down the path of equity in trying to overprovide for social welfare services and have had their economies collapse, and that is why they are in the pickle that they are in. So you cannot neglect growth.

If one wants to ease the burden here, ease the debt burden. No one has talked about this this morning. It is outside the legislation, but that is the big drag if one is really concerned with accelerating growth so you can create the better economic conditions within which democratization can unfold.

Senator JEFFORDS. One last question. I am concerned, as we go into a new era where peacekeeping is becoming a rather prevalent activity, that utilization of the term national security to justify assistance is a rather cumbersome tool or definition for us to work with, and that we need to consider whether or how we face the differences between this new era and the period of the cold war where national security was pretty clear. Then, if a government was Communist, national security considerations argued against aid. If it was not, they probably argued for aid even if there was a rather less than acceptable group of people running the country.

Should we now be facing that issue more directly in trying to define another kind of concept of need under peacekeeping rather than national security?

Dr. ROSSITER. May I respond to that, Senator? I think it is very important at this point when we have the opportunity where the great military superpowers, the United States and the former Soviet Union, are pretty quickly reducing their military spending, the former Soviet states very quickly, and we are dramatically, to understand that our national security is threatened by this outbreak of crises and conflicts all over the world. There are 24 or 25 conflicts at any one time, and we will get dragged into some, and they will destroy entire region's economies nonetheless which hurts us.

And the one thing I think is missing in this bill is a commitment to promote international demilitarization. It is much safer for us if the world is filled with smaller, less offensively oriented armed forces.

And that is something that takes some doing. It takes pressure at the World Bank not to lend to countries that will not cut their military spending or work with their neighbors to come up with regional security pacts that can reduce the level of offensive threat to each other, but I think it is a road we have to go down now because if we do not at the time when the United States can turn to other countries and say, well, we are reducing our military budget by 25 percent and you can do it too, we are going to miss a great opportunity for our national security.

Senator JEFFORDS. Don?

Mr. FRASER. I think there is a kind of intellectual vacuum now that the cold war context or framework has disappeared. In my own efforts to think about it I have come to the view that what we need is a positive goal and that needs to be built essentially around international human rights standards. That becomes our vision toward which the world community needs to move, and that our interests lie in taking actions that advance—that move us, the world community and ourselves as a participant, toward that goal.

That does not mean that we are not going to have economic interests and economic conflict. I think our relationship with Japan is a good example of that. But that is kind of a negative. The question is, where are we trying to go as a world community?

I think the human rights idea, which is really embodied in the U.N. Charter, represents the kind of vision that would help us supply some of the criteria for determining what is in our interest, because we need to have what is in our interest measured in a broader context, and it seems to me it has to be something like the rights idea.

Senator JEFFORDS [presiding]. Anyone else?

Mr. CONAHAN. Yes, Senator. I think another dimension goes to the actual charge and implementation of peacekeeping activities. I suggest that we are talking for the most part about the U.N.

I think that whatever ultimate arrangement is agreed to between the executive branch and the legislative branch as to when the executive branch can commit the United States to participation in such peacekeeping activities that we need to assure ourselves that peacekeeping charges are operationally and politically doable.

I think we have to make sure that they are supportable in the field. I think that we have to assure that we have the correct understandings with the other members of those peacekeeping forces before we attempt to do some of the things that we have done.

I think that Cambodia succeed in spite of the myriad of problems that the peacekeeping operation had over there. Certainly UNOSOM I in Somalia was not at all a success for some of the reasons I mentioned after the U.S. intervention. Then the follow-on was a little more successful but I will leave that to the judgment of everyone in that room as to how that is now coming out. But I think that is another dimension of peacekeeping that we have to take into account.

Senator JEFFORDS. Well, that is the area that really worries me as we move forward because we are getting into all sorts of binds now regarding when we commit troops and who we commit. I suggest that we ought to perhaps have a separate force of volunteers to deploy in those kinds of disputes which are not directly related to the national security so we do not get into the problem of people complaining that they did not sign up to serve in potential conflict areas except where the national interest is involved, as traditionally defined.

And I do not know how we are going to guide ourselves and provide more flexibility to the administration, yet in a way that maintains some sort of principled policy for peacekeeping and U.S. engagement in that area. I would appreciate any thoughts that you may have, either today or as time goes on.

Last, I just want to thank you for being here. It has been very helpful to me, and I look forward to working with you. Don, it is great seeing you. It has been a long time since you left. I spent 4 years with you and I was a great admirer of yours at the time.

So, thank you all very much. And with that I will declare the hearing closed.

[Whereupon, at 1:45 p.m. the subcommittee adjourned, to reconvene at 2:12 p.m., March 3, 1994.]

GLOBAL ECONOMIC AND ENVIRONMENTAL POLICY

THURSDAY, MARCH 3, 1994

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC
POLICY, TRADE, OCEANS AND ENVIRONMENT
OF THE COMMITTEE ON FOREIGN RELATIONS
Washington, DC.

The committee met, pursuant to notice, at 2:12 p.m., in room SD-419, Dirksen Senate Office Building, Hon. Paul Sarbanes (chairman of the subcommittee) presiding.

Present: Senators Sarbanes, Kassebaum, and Jeffords.

Also present: Senators Boren and Lieberman.

Senator SARBANES. This afternoon the Subcommittee on International Economic Policy meets to examine global economic and environmental issues in the context of foreign reform. This is our third hearing on this subject this year, and it is a continuation of a long series of hearings on this subject that we began last spring.

We obviously need to cover a lot of ground here today. We have some very good panels. First, we will be hearing from the Under Secretary of State Joan Spero and the Under Secretary of the Treasury Larry Summers about the international economic policies that are reflected in the administration's proposed foreign aid bill and the new foreign aid budget.

Actually, this will give the Treasury a chance to present the international affairs budget request, if they wish to do so, for fiscal 1995 and for the State Department to discuss its plans for promoting growth through trade and investment under the foreign aid reform proposal.

The second panel today will address the relationship between foreign assistance and export promotion, the extent to which the two should be linked.

We will be hearing from Senators Boren and Lieberman, who have sponsored the Aid for Trade Act and have focused on this issue for quite some time. And then we will hear a panel of public sector witnesses who will discuss the issue further.

Finally, the third panel today will consist of public witnesses to discuss environmental and management issues at the multilateral development banks.

Many concerns have been raised about the types of projects that have been supported and the ways in which decisions are made, at least at some of the banks, and we thought it would be a good opportunity today to address those concerns.

Before I turn to our witnesses, I will yield to Senator Kassebaum.

Senator KASSEBAUM. I have no opening comments. Thank you, Mr. Chairman.

Senator SARBANES. Well, Under Secretary Spero, why do we not hear from you? And then we will take Under Secretary Summers. Please go ahead.

**STATEMENT OF JOAN E. SPERO, UNDER SECRETARY OF
STATE FOR ECONOMIC AND AGRICULTURAL AFFAIRS**

Ms. SPERO. Very good. Thank you, Mr. Chairman.

I have a written testimony that I would like to submit for the record, and then I will summarize that, if I may.

Senator SARBANES. The full statement will be included in the record.

Ms. SPERO. Mr. Chairman, Senator Kassebaum, I appreciate the opportunity to testify on the international economic policies of the Clinton administration and the Peace, Prosperity and Democracy Act. Specifically, I would like to emphasize that our broader foreign policy goals are captured in this legislation. Its passage is a top priority on the administration's legislative agenda.

In the post-cold war era, we must change our traditional frame of reference and take into account more vigorously our economic interests. We must assure our competitiveness and demand that other countries grant us access to their markets in trade and investment on terms no less favorable than we give to them.

The administration's integrated policy of trade, investment, debt management and foreign aid focuses on open world trade and investment as the best path to worldwide growth and economic reform.

Our focus internationally is to open markets for all countries, ensure fair competition, and fight protectionism everywhere. Our successful conclusion of the GATT Uruguay Round has enabled us to bring the international trading system up to date. With NAFTA, we have taken a major step toward a single North American market. In APEC, we are establishing the basis for cooperation in opening markets in the Asia-Pacific region. And we are helping U.S. exporters directly through our national export strategy.

Mr. Chairman, I want to assure you that the State Department is playing an active role in the formulation of the international economic policy and its day-to-day execution. Led by Secretary Christopher, State Department officials understand that we all work on what he has called the America's Desk. We are pursuing our economic policy objectives and improving our partnership with and promotion of American business. Each day our Ambassadors and our 275 Foreign Service posts report on developments that affect our businesses, promote exports, and support market opening efforts. In addition, we are actively helping U.S. exporters directly through our national export strategy.

The administration is bringing this same hard-headed thinking to bear on the issue of foreign assistance. The Peace, Prosperity and Democracy bill, proposed by the administration, is designed to connect in an explicit way our refocused national purpose with complementary foreign assistance activities. It puts our foreign as-

sistance authorities in a framework that ties our overseas programs to President Clinton's goals for our Nation. Let me briefly focus on the authorities that relate to sustainable development and promoting growth through trade and investment:

Sustainable development strengthens the economic structures that societies need to prosper over the long term. It provides a base for stable, peaceful and democratic societies and helps create new export markets. Last year more than 40 percent of our exports went to developing countries, more than \$180 billion. By the end of the decade, that total could reach \$360 billion. As we eliminate bottlenecks to growth abroad with our assistance programs, we also actively employ the Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency. We work to ensure that our firms benefit from and ultimately reinforce growth in emerging markets.

The administration is seeking more than \$1 billion for trade and investment programs administered by the Export-Import Bank, the Agriculture Department, Trade and Development Agency, and the Overseas Private Investment Corporation. These programs achieve great leverage: EXIM Bank's \$800 million request for fiscal year 1995 in subsidy budget authority is expected to support \$17.5 billion in loans, guarantees and insurance. OPIC's \$20 million subsidy budget should generate almost \$400 million in loans and guarantees.

We use our tied aid funds to level the playing field. We work to ensure that tied aid of foreign donors does not unfairly disadvantage U.S. exporters' ability to compete in major developing country markets. Because tied aid is far more expensive and provides less leverage than regular EXIM programs, the U.S. has negotiated in the OECD a series of progressively stricter limits on the use of trade distorting tied aid credits.

Mr. Chairman, as the alternate governor to the multilateral development banks, I want to stress that we will promote our assistance goals and standards in improving these institutions, just as in turn, we rely on the MDB's to promote critical U.S. interests around the world. Our bilateral and multilateral assistance complement each other. Multilateral development banks provide us with additional leverage provide to advance our policy interests. The MDB's also serve as a dramatic multiplier of lending capacity at a time when our bilateral foreign aid budget is not sufficient. The banks play an indispensable role in promoting economic policy reform. We are pleased that the MDB's have come as far as they have in supporting environmental protection, and we will continue working with them in this regard. And let us not forget that the U.S. exports financed by the MDB's exceed our contributions to those institutions. Unfortunately, the \$847 million in U.S. arrears undercuts our ability to shape their policy. Our influence in the MDB is at risk.

Mr. Chairman, continued U.S. leadership in providing bilateral and multilateral assistance and maintaining an open world trading system are essential to reduce the threat of instability in the international, political, and economic system. By reorienting our foreign assistance, as proposed in the draft Peace, Prosperity and Democracy legislation, and fully funding our commitments to cover the

multilateral development banks, we can make a major contribution to assuring balanced economic growth, good governance, environmental protection, and our other goals for the world of the 21st century.

Thank you.

[The prepared statement of Ms. Spero follows:]

PREPARED STATEMENT OF UNDER SECRETARY OF STATE JOAN SPERO

Mr. Chairman, Members of the Committee, I appreciate the opportunity to testify on the international economic policies of the Clinton administration and the Peace, Prosperity, and Democracy Act. Specifically, Mr. Chairman, I want to emphasize that our broader foreign policy goals are captured in the legislation. Its passage is a top priority on the administration's legislative agenda. The administration welcomes close consultation with Congress as we integrate the economic and political facets of our foreign policy. U.S. leadership in shaping the global economic framework is essential in today's world.

U.S. economic prosperity and strength underwrite our national security. During the cold war our economic power paid for our military establishment and enabled us to provide significant amounts of assistance to advance political, security, and economic goals. Economic policies—trade policies and opening investment markets—were subordinate to our strategic interests. Now we must change our traditional frame of reference and take into account more vigorously our economic interest; we must rebuild the domestic base for international competitiveness, push hard for jobs and exports for our people and companies, and demand that other countries grant us access to their markets in trade and investment on terms no less favorable than we give to them. As we work to accomplish foreign policy objectives from human rights to nonproliferation to protection of the environment, our economic strength will determine in large measure how much leverage we have to produce change in noneconomic areas. In short, economics has acquired a new centrality in U.S. foreign policy.

ADMINISTRATION POLICY

The administration's integrated policy of trade, investment, debt management, and foreign aid focuses on open world trade and investment as the best path to worldwide growth and economic reform. We are pursuing sound macroeconomic policies and our deficit reduction program has resulted in dramatic reductions in interest rates contributing to our recent strong economic performance. Our global, regional and bilateral efforts are complementary, and our focus is to open markets for all countries, ensure fair competition, and fight protectionism everywhere.

—The successful conclusion of the GATT Uruguay Round has brought the international trading system up to date by significantly reducing tariffs and nontariff barriers; expanding the trade regime to services, intellectual property and investment; setting a meaningful framework for agricultural trade; and establishing a world trade organization.

—In addition to removing global trade barriers, the U.S. is also pursuing regional market opening. With NAFTA, we have taken a major step toward a single North American market. The APEC trade and investment framework launched last November in Seattle lays the groundwork for cooperation on opening markets in the Asia-Pacific region, increasingly the world's most important market.

—Bilaterally, the U.S.-Japan economic framework, our economic cooperation dialogue with Korea, and our discussions with China on market access are aimed at providing greater opportunities for exports of American goods and services to these crucially important markets.

—In addition to opening markets for U.S. goods, services and capital, we are actively helping U.S. exporters directly through our national export strategy. The Trade Promotion Coordinating Committee, chaired by the Department of Commerce and involving 19 agencies, spearheads this strategy. As exemplified by the recently announced \$6 billion sale of U.S. airframes to Saudi Arabia, the administration, from the president on down, is working here in Washington and around the world to help American business compete in world markets.

I want to assure you that the State Department is playing an active role in the formulation of the administration's international economic policy and its day-to-day execution. Led by Secretary Christopher, State Department officials here in D.C. understand that we all work on the "America's desk." We are pursuing our economic policy objectives and improving our partnership with and promotion of American

business. Each day our 275 Foreign Service posts around the world report on developments that affect our businesses, promote exports and support market opening efforts. Our Ambassadors understand that supporting U.S. economics and business interests is a key part of their job. I work closely to ensure that economic issues are given full and equal consideration in policy decisions.

THE PEACE, PROSPERITY AND DEMOCRACY ACT

The administration is bringing this same hard-headed thinking to bear on the issue of foreign assistance. For 40 years that assistance was shaped by our cold war interests. This administration moved quickly to reorient and restate our broad national goals; it proposes to reshape U.S. foreign assistance in line with those ends.

The peace, prosperity and democracy bill proposed by the administration is designed to connect in an explicit way our refocused national purpose with complementary foreign assistance activities. It puts our foreign assistance authorities in a framework that ties our overseas programs to president Clinton's goals for our nation. Foreign assistance advances the security and well being of Americans by strengthening societies and economies abroad.

The peace, prosperity, and democracy bill is broadly categorized as follows:

1. Supporting sustainable development programs to encourage broad-based economic growth, protect the environment, promote popular political participation, and stabilize world population growth.
2. Building democracy by meeting humanitarian, political, economic, and security needs of countries in transition to democracy and of countries where democracy is being threatened.
3. Promoting peace through U.S. peacekeeping contributions; by providing assistance for a nonproliferation and disarmament fund; with aid to meet regional peace and security objectives, including the Middle East peace process; and through funding for counternarcotics, antiterrorism and international crime prevention.
4. Providing humanitarian assistance.
5. Promoting U.S. prosperity and growth through foreign trade and investment support activities such as the programs of OPIC and the Trade and Development Agency.
6. Advancing diplomacy through State Department activities.

Let me briefly mention how each element of this framework is linked to our foreign policy objectives:

SUSTAINABLE DEVELOPMENT

Sustainable development strengthens the economic structures that societies need to prosper over the long term. It provides a base for stable, peaceful and democratic societies. Achieving this goal also has a strong positive impact on the economy of the United States. Helping the developing world grow directly helps U.S. exporters, since developing countries are the fastest growing market for U.S. goods and services. Last year more than 40 percent of our exports went to developing countries, more than \$180 billion. By the end of the decade that total could reach \$360 billion.

PROMOTING GROWTH THROUGH TRADE AND INVESTMENT

Even as we help eliminate bottlenecks to growth abroad with our development assistance programs, we actively employ the Export-Import Bank (EXIM), the Overseas Private Investment Corporation (OPIC) and the Trade and Development Agency (TDA) programs through the interagency Trade Promotion Coordinating Committee (TPCC) process to make sure that our firms benefit from—and ultimately reinforce—growth in emerging markets. The TPCC is pursuing a more aggressive program, including a major effort to coordinate U.S. Government resources in support of U.S. firms bidding on overseas contracts, starting pilot one-stop assistance centers, and developing a more flexible approach to trade finance. OPIC and TDA are authorized in the peace, prosperity and democracy legislation, while EXIM and Department of Agriculture programs are authorized separately.

Our international affairs (function 150) programs are designed to draw in and facilitate an active role by our own firms. The administration is seeking more than \$1 billion for trade and investment programs administered by the Export-Import Bank, the Agriculture Department, the Trade and Development Agency and the Overseas Private Investment Corporation. These programs achieve great leverage: Eximbank's \$800 million request for fiscal year 1995 in subsidy budget authority is expected to support \$17.5 billion in loans, guarantees, and insurance, and OPIC's \$20 million subsidy budget should generate almost \$400 million in loans and guarantees.

We use our EXIM and other resources carefully, but can apply them if necessary to meet competition. We use our tied aid funds to level the playing field and ensure that foreign tied aid does not unfairly disadvantage U.S. Exporters ability to compete in major developing country markets.

We do want to ensure that other countries, who provide 80 percent of all foreign assistance dollars, don't use their aid funds unfairly to advance their export competitiveness at our firms' expense. For this reason, the U.S. has negotiated in the OECD a series of progressively stricter limits on the use of trade distorting tied aid credits. The United States aggressively monitors implementation of the arrangement by our OECD trading partners, and we challenge foreign deals that seem to overstep the guidelines.

PROMOTING PEACE

Our assistance helps control the risk of destabilizing wars that could threaten the international order. Promoting peace is good business as well as responsible statesmanship. No one has forgotten the recessions which sprang from Middle East instability and the oil price shocks of 1973-74 and 1979-80. They reduced U.S. growth rates for years and triggered painful economic adjustments. This administration is committed to pushing forward the Middle East peace process, which is neither easy nor without cost, but which has seen progress; its success will largely depend upon bringing significant economic as well as political benefits to the West Bank and Gaza, and to the region as a whole.

BUILDING DEMOCRACY

This section of the act clearly links our political and economic goals. Promoting democracy in Russia, the newly independent states and Eastern Europe also directly benefits the United States economy as these areas become open to American trade and investment. For example, U.S. exports to Eastern European nations rose from \$329 million in 1986 to \$1.3 billion in 1992. There are other economic stakes as well. Should Russia turn away from economic reform and transformation there will be serious political costs—in the worst case scenario, instability, regional tensions, and a setback for democracy worldwide. Instead of a peace dividend, our economy would be saddled with the need for increased defense spending, with renewed pressures on the Federal deficit.

PROVIDING HUMANITARIAN ASSISTANCE

In the post-World War II period no country has a better record of responding to humanitarian disasters than the United States. The desire to help is part of our national character. In today's electronically connected world the images of suffering reach us with a speed and an immediacy that require a quick response. This administration will continue to reflect the charity of Americans and provide help where it is most urgently needed.

MULTILATERAL DEVELOPMENT BANKS

The Peace, Prosperity, and Democracy Act is one element of the Clinton administration's international economic policy agenda. It sets the goals and standards that we will pursue with other donors and in the international financial institutions. As the alternate governor to the multilateral development banks, I want to stress that we will promote our goals and standards in these institutions, just as in turn, we rely on the MDB's to promote critical U.S. interests around the world.

Our bilateral and multilateral assistance complement each other. In particular, our participation in the multilateral development banks provides us with leverage to advance our policy interests. By pursuing U.S. policy objectives through the MDB's, we strengthen the U.S. voice in guiding development in recipient countries.

The MDB's are playing an indispensable role in helping countries of intense interest to U.S. foreign policy. The MDB's have been a highly effective mechanism for achieving U.S. goals of policy reform in the developing and former socialist states. These economies are largely dominated by state-owned enterprises, nonmarket price structures and legal and regulatory environments which are discriminatory, inefficient and lead to stagnation. MDB lending agreements help move recipient governments to change these impediments to development.

The MDB's are increasingly involved in promoting vital social goals such as public health, basic education, good governance, and poverty reduction. They also are playing a much stronger role in environmental protection worldwide. Two decades ago the environment was a footnote in the MDB dictionary, today each MDB has adopted an environmental agenda and set out environmental impact assessment requirements, thanks largely to U.S. pressure. We press the international financial institu-

tions hard to avoid ill-conceived projects with large resettlement and environmental disruption side effects. We are pleased that the MDB's have come as far as they have in supporting environmental protection and we will continue working with them in this regard.

The MDB's also financially enhance our bilateral programs. The MDB's provide vital support in regions where bilateral programs are being cut and serve as a dramatic multiplier of lending capacity in places where our bilateral foreign aid budget is not sufficient. The World Bank has \$1.37 billion for economic reform and rehabilitation in Russia; the EBRD will provide \$2.1 billion support for new private enterprises in Eastern Europe and the NIS; and the IDB is devoting \$1.24 billion for investment sector reforms in Latin America. The World Bank is ready to commit \$1 billion annually to support the economic transition in South Africa.

Similarly important, the MDB's provide an umbrella for essential donor coordination. The World Bank routinely manages consultative groups for major aid recipients. The bank, for example, will coordinate over \$2 billion in bilateral and multilateral aid for the occupied territories to support the Middle East peace process, an area of critical importance to the United States.

Unfortunately, U.S. budget stringency hurts our ability to fund the MDB's and therefore shape their policies. Our influence in the MDB's is at risk. Far from being their most dominant contributor, we are their most delinquent donor with \$847 million in arrears. And, unlike the one-country-one-vote UN agencies, in the MDB's our voting weight is linked to our financial contributions. The less we pay the less we play.

CONCLUSION

Since the end of the World War II the United States has sought open global markets for capital, goods and services; our progress toward these goals has resulted in the greatest era of economic growth in history. To ensure that world markets continue to open and grow, we are pursuing in many different fora the fuller engagement of the countries in transition and in the developing world. Aid recipient countries of the developing world and the former Soviet Union now account for 50 percent of the world GNP and 85 percent of world population. We have an interest in supporting the countries which are struggling in their transition to democracy. In addition, their increase in numbers and purchasing power will create great opportunities for U.S. business. We cannot overlook these developing and transition countries.

Continued U.S. leadership in providing bilateral and multilateral assistance, and insistence on the maintenance of an open world trading system are essential to reducing the threat of instability in the international political and economic system. The world community cannot afford more failed states whose societies and economies have fallen apart. Safeguarding U.S. prosperity will also require the continuation of strong growth in the developing countries, and revitalization of the economies of Europe and Japan. By reorienting our foreign assistance as proposed in the draft peace, prosperity, and democracy legislation and fully funding our commitments to cover the multilateral development banks, we can make a major contribution to assuring balanced economic growth, good governance, environmental protection, and our other goals for the world of the 21st century.

Thank you, Mr. Chairman.

Senator SARBANES. Thank you very much. Secretary Summers.

STATEMENT OF LAWRENCE H. SUMMERS, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS

Mr. SUMMERS. Thank you very much, Mr. Chairman, Senator Kassebaum. I have a longer statement that I will submit for the record.

Senator SARBANES. The full statement will be included in the record.

Mr. SUMMERS. If you have a copy of my testimony, at the end it includes a several charts that I will refer to in the course of this brief presentation.

I am going to talk about the importance of the developing world and the importance of strong support for the MDB's as a key component of U.S. policy toward the developing world. The developing world represents tremendous opportunity for the United States.

U.S. exports to these countries have more than doubled since 1987. They now account for 40 percent of total exports, and they represent some 3 million jobs each year, and it is in the developing world where most of the world's future economic growth is going to come.

One just need compare the 7-percent growth rates in many Asian countries with the stagnation now underway in Europe.

But at the same time that the developing world represents a tremendous opportunity, it also involves tremendous risks. I would refer anyone here who has not read it to a recent study in the "Atlantic Monthly" by Robert Kaplan, entitled, "The Coming Anarchy."

It speaks of the risks of future Somalias emerging from problems of governance, problems of shortage of resources, problems of lack of economic development.

Secretary Christopher has emphasized that preventive diplomacy is a key element of U.S. foreign policy, and I would suggest that support for economic development through the MDB's represents a critical tool of preventive diplomacy in producing the prosperity that ultimately underwrites both stability and peace.

Let me turn more directly to the MDB's. In the world of today, where government resources are short and where we have an increased appreciation of the importance of market forces, there is a strong rationale for channeling foreign assistance through multilateral development banks.

On the one hand, they are multilateral. So U.S. resources are multiplied by the contributions of other countries; on the other, they are levered because much of the resources that are provided represent loans.

As you can see in the first chart that I have provided, the \$2 billion in U.S. contributions to the MDB's supports \$45 billion a year in projects that are undertaken in the developing world, a leverage of 23 to 1.

That \$45 billion far exceeds what we, or indeed what any other nation, is able to do in its bilateral assistance effort.

These resources address a variety of U.S. foreign policy priorities, from the \$7 billion that have gone to Eastern and Central Europe to the \$1.8 billion provided for environmental cleanup by the World Bank in connection with NAFTA to the World Bank's central role in aid coordination in the Middle East to IDA's planned substantial contributions and \$11 billion to sub-Saharan Africa.

At the same time that these institutions are meeting our critical foreign policy priorities, they are supporting employment here at home.

As the second chart illustrates, we estimate that the direct activities of the MDB's in supporting liberalization and in generating procurement account for \$7.7 billion in U.S. exports for 146,000 jobs.

To be sure, there are important respects in which the performance of these institutions can be brought more in line with U.S. objectives. Secretary Bentsen, in his testimony to Congress last year seeking support for the MDB's, outlined a five-point agenda.

First, more effective project design and implementation. We supported the actions that the MDB's have taken in this regard, most notably the World Bank's follow up to the so-called Wapenhans re-

port, and we have insisted that there be similar reports in each of the regional banks.

And those reports will be discussed in the context of each of the regional bank's annual meetings this spring. The result will be more people in the field.

The followups to these reports will also result in more effective supervision of projects so that the culture in these institutions moves toward one where they drink champagne after some development has been accomplished, rather than after projects have been brought to the board.

Second, greater transparency and openness. This has been a concern of Congress's for some time and reflects critical American values.

I am pleased to say that, not without a very substantial effort on some of my colleagues' parts, we were successful in developing a consensus for a substantially more open information policy at the World Bank, and that the World Bank also agreed to set up an independent inspection panel, the members of whom will be announced within a very short period of time. It would concentrate particularly on the environmental aspects of projects.

As the various regional banks move toward their capital increases, I anticipate over the next year that similar mechanisms directed at open information policy and at independent inspection panels will become part of the operations of each of the regional banks.

Third, Secretary Bentsen emphasized the importance of encouraging the MDB's to focus their energies on poverty reduction and on sustainable development.

Support from the MDB's for human needs represents \$15.5 billion annually. That is nearly seven times the basic human needs effort that we are able to manage with our own bilateral assistance programs.

We are particularly concerned with expanding the access of the poor and expanding the access of women to support for meeting basic human needs. An important area where the MDBS are increasing substantially their effort with U.S. effort is family planning.

We are pleased at the nascent efforts that the World Bank in particular has made to strengthen small-scale enterprises, such as a recent grant to the Grameen Trust of Bangladesh. We are pressing actively, and I am cautiously optimistic that we will succeed, so that I will be able to report next year on the establishment in at least some of the MDB's of small projects facilities that promote local environmental and poverty reduction initiatives and strengthen outreach to local nongovernment organizations and microenterprises.

Fourth, multilateral development bank support for strategic global initiatives. As I have already made clear, the banks are carrying a large part of the burden for the world's efforts at economic reconstruction in the Middle East, at economic reconstruction in Russia, and at economic reconstruction in the other countries of the former Soviet Union.

And I would say in the case of Russia that as the outlook for inflation becomes more difficult, the importance of the kind of struc-

tural changes that the World Bank and the other banks support through their lending activities will only increase.

Finally, we are working hard to expand the opportunities for U.S. business through the multilateral development banks. I already mentioned the MDB procurement. The United States is the largest recipient of such procurement.

I would also mention that in their private sector activities, it is American firms that are, for example, by far the largest joint venture partners of the EBRD in its business activities in Eastern Europe and in Russia, and that the Department of Commerce is moving, as part of Secretary Brown's export promotion efforts, to consolidate all support for U.S. firms as they work with the MDB's in a single office.

Finally, we have made progress in restraining MDB operating costs in a long overdue step. I am pleased to report that first-class air travel has now been effectively eliminated at both the World Bank and the IMF, as well as the regional banks.

But we have a growing problem in maintaining our influence. The United States is the only major country that is not paying the MDB's what we owe and what we have promised. These arrears increased by \$473 million last year and now total \$847 million.

If we want to preserve U.S. leadership, if we want these institutions to respond to our initiatives, the least we can do is to pay our dues. We cannot continue to receive the very considerable benefits from these institutions if we do not meet our financial commitments.

That is why the administration has proposed as an urgent priority to eliminate over a 4-year period U.S. arrears at the same time that we meet our obligations to the multilateral development banks, and those efforts should start this year.

Finally, Mr. Chairman, I would just like to highlight the four new arrangements where the administration will be seeking authorizing legislation. The IDB is up for a capital increase this year.

We expect that negotiation to be concluded within the next few weeks. The bank will commit itself, in the course of that negotiation, to vastly expanded efforts in the social sector.

The American contribution, because of a variety of changes in financial technique, will be significantly lower than American contributions to the bank have been in the past.

We are also seeking authorization for replenishing the African development fund, a major source of concessional resources in Africa. An important condition for our support will be an improvement in the quality of the development activities of that fund.

I should say that those efforts to support Africa will be complemented by the debt initiatives that the administration undertook last year and is continuing this year.

We are requesting authorization for the Global Environmental Facility—the GEF. Both the Congress and the administration are committed to improving the global environment, and the GEF is an essential step in that direction.

We are insisting, as the negotiations continue—and I am hopeful that they are getting near the end—that a variety of U.S. priorities, in terms of openness, in terms of disclosure, in terms of appropriate scrutiny of projects, be respected.

Without those it would be inappropriate and irresponsible for us to support the GEF. But with those, I believe that the GEF can and will serve as a centerpiece for international efforts to support conventions on climate change and biodiversity, as well as efforts to combat ozone depletion and the degradation of international waters.

Finally, the administration is seeking authorization and appropriation of \$100 million over 15 years for the enhanced structural adjustment facility—ESAF—of the IMF. That is the IMF's window for the poorest countries paralleling IDA at the World Bank.

The original ESAF was established in response to valid criticism from the Congress and others that the IMF was doing too little for the world's poorest countries.

It has made a real contribution to stability in a number of African countries, and I believe at a very low price to the United States on the order of \$7 million a year starting in 1997. It is a superb investment for the United States.

We are also participating in negotiations for a capital increase in the Asian development bank, but those will not have budgetary consequences in fiscal year 1995.

Finally, Mr. Chairman, this is a pivotal year for multilateral development banks. The administration has sought full funding and has sought a program of making up the arrears.

If we are not able to embark on such a program this year, it is likely to force a substantial reduction in American commitments to these institutions, which would also lead to substantial reductions in other nations' commitments to the institutions and I believe a disastrous reduction in the world's development efforts with very serious economic and ultimately social consequences.

Thank you very much.

[The prepared statement of Mr. Summers follows:]

PREPARED STATEMENT OF LAWRENCE H. SUMMERS

Introduction

Mr. Chairman. I welcome this opportunity to testify before the Committee.

The challenge to this administration to prepare a foreign assistance budget that properly reflects our priorities in the post cold-war era is great. It is now clear that economic security provides the greatest national security. This is demonstrated by increasing global interdependence, greater opportunities for trade, and the overriding influence of economic policy.

As we worry less about superpower confrontation, we find both the greatest opportunities and the most serious threats coming from developing and/or transforming economies. U.S. participation in the international financial institutions together with our trade policy, are the most effective tools we have for addressing U.S. interests in the developing world.

The Developing World: Opportunities and Challenges

Opportunities are great because of the promising growth many developing countries are achieving, the appetite for trade created by this growth, and the general expansion of these countries' role in and importance to the global economy. A large and growing share of the world's economic activity now takes place in developing countries.

Developing countries account for over 85 percent of the world's population and almost one-half of global purchasing power. Five of the twelve largest economies are in developing countries. U.S. exports to these countries have more than doubled in a 6-year period, ballooning from \$73 billion in 1987 to \$186 billion in 1993. U.S. exports to the developing world now account for 40 percent of our total exports and are responsible for creating or sustaining some 3 million U.S. jobs each year.

But the challenges that developing countries face also bring profound threats to global stability and prosperity. Growth and change are stressful, often resulting in political, economic and social disruption. However, resistance to change and reform is no less risky.

Clearly the overall outlook is fragile, and critical problems remain. More than one billion people still confront severe poverty, and population growth continues at high levels. Economic and social progress in Africa is particularly disappointing. Far too little attention is still accorded to environmental problems, and far too few people realize the benefits of democratic and participatory government. The trauma of reform in some countries and the absence of it in others leads people in the most desperate straights to look for a better life, creating an ongoing refugee problem. And the stress of change puts institutions at risk of collapse, creating a crisis of their own.

As developing countries and countries undergoing transformation seek to advance and sustain the progress they have made—and as we tackle the difficult task of helping those who lag far behind—strong external support for the evolution of free markets and democracy will be critical.

As I will discuss in more detail in a few moments, the international financial institutions offer us the best vehicles to provide this support. That is why this administration's commitment to these institutions is so strong. Through them, we take on a vital, but shared role in advancing economic opportunities overseas, in promoting sustainable development, and in furthering the broader U.S. vision of the world. Through them, we have our best chance to move toward a world in which a "putting people first" market-oriented strategy is realized.

The Role of the International Financial Institutions

The importance of these institutions to U.S. interests is clearly reflected in the budget request for the international financial institutions put forward by the Clinton administration for fiscal year 1995. This administration has taken the considered position that the international financial institutions merit strong U.S. support, and we should demonstrate this support not only by honoring our current and past commitments, but also by joining in new commitments to several of the regional development banks, the Global Environment Facility and the IMF.

I want to discuss in more detail why we believe these institutions and our role in them are so vital to U.S. interests, as well as to apprise you of how we are faring in our efforts to revitalize and strengthen these institutions. And, as you requested, I would like to brief you on several capital increase and replenishment negotiations now underway.

The "Leverage" of the Multilateral Development Banks

The expansion of U.S. interests in the developing world and our budget realities make it more important than ever to maximize the leveraging of U.S. resources. The multilateral development banks (MDB's) have two clear advantages. First, their multilateral character and financial and technical capacity make them the most effective aid instrument for encouraging developing countries to undertake the economic policy reforms necessary to become free market-oriented democracies.

Second, there is the very considerable "leveraging effect" of U.S. contributions. For every dollar in the administration's FY 1995 budget request for the MDB's, the banks will lend more than \$22 this year. Our \$2 billion request compares with roughly \$45 billion in new MDB lending this year.

Leveraging is particularly high in the "hard loan" windows such as the World Bank which has lent \$122 for every dollar of U.S. paid-in capital. Leveraging is also significant in the "soft loan" windows for the poorest countries where, for example, IDA is able to lend six dollars for every dollar contributed by the United States.

Because the MDB's are so cost effective, their impact extends far beyond their ten percent share of the administration's foreign assistance request. We rely heavily on the banks to address critical U.S. interests around the world.

Examples include:

- \$7 billion in IBRD lending commitments to **Eastern and Central Europe** over the last four years;
- the recent World Bank agreement to provide \$1.8 billion over three years for **Mexico** (a key component in environmental clean-up efforts along our shared border);
- IDA's planned concessional credits of up to \$11 billion for **Sub-Saharan Africa** over the next three years;
- the World Bank's central advisory, aid-coordination, and financing roles in **Gaza and Jericho**, helping enhance Middle East peace efforts;

- expanded MDB support for **environmental protection**—more than \$2.8 billion last year and projected to rise rapidly; and
- increased MDB support for **human resource development**—over the next three years, the World Bank expects to lend more than \$14.5 billion for education, population, health and nutrition.

The MDB's Benefit U.S. Business

The MDB's also promote development in a way that provides substantial benefits to U.S. business.

On an annual basis, U.S. companies have received MDB-financed procurement amounting to more than \$2.7 billion. This is \$1.2 billion more than the United States contributed to the banks in the past fiscal year.

U.S. business also benefits from MDB support for economic reform that expands the import capacity of MDB borrowers. We believe that U.S. exports which are attributable to such MDB programs are on the order of \$5 billion a year.

We estimate that the \$7.7 billion in U.S. exports generated through the MDB's each year create or sustain at least 146,000 U.S. jobs.

The positive results of MDB supported reform can be seen in the successful resurgence of growth in Latin America, a region supported by over \$60 billion in World Bank and Inter-American Development Bank lending over the last six years and now the fastest growing market for U.S. exports.

The MDB presence in borrowing countries also helps establish a sound enabling environment for U.S. industrial and financial investors. The viability of many of our bilateral programs relies heavily on the MDB's. For example, the MDB's have loaned \$57 billion over the last three years to the 10 developing countries where the Export-Import Bank exposure is largest.

The fact that the MDB's provide enormous benefits to U.S. business in no way detracts from the fact that sustainable development, including economic opportunity for the poor protection of the environment, central to the MDB's' development agenda.

Strengthening MDB Performance

As the largest single donor to the MDB's, and with such an important stake in their effectiveness, the United States must lead in setting MDB policies and priorities.

Democratic and Republican administrations have played key roles in establishing and strengthening the MDB system. The Clinton administration is now actively working to address weaknesses in this system and improve its effectiveness. We have heard and are acting upon the concerns raised in the Congress and elsewhere. Our fundamental goal is to maximize the developmental impact of MDB operations.

Last year we outlined the five-point agenda for change. We believe we have done very well, but we still want more progress in several key areas.

I would like to review in detail our efforts on the five-point agenda.

(1) *More effective project design and implementation.*—Over the past year, we have urged all of the MDB's to take measures to improve the management of their development programs. We supported strongly the "Wapenhans" process in the World Bank and are pressing for vigorous implementation of the action plan adopted in July 1993 to improve project performance. This entails strengthening both the quality of projects at the entry level and the management of project implementation. We are working to advance similar reforms in the regional MDB's.

(2) *Greater Transparency and Openness.*—The administration has actively promoted greater transparency in MDB operations. We were successful in developing the necessary consensus among governments for a substantially more open Information policy at the World Bank. The new policy, approved in August 1993, establishes a public information center and significantly expands the scope of technical and other information, including environmental assessments, made available to the public for all Bank projects under preparation. Key documents currently restricted to member governments will also be made available to the public once the projects are approved by the Executive Board. Ensuring full implementation of the new policy, and also getting similar policies adopted by the Executive Boards of regional MDB's, are major administration priorities.

The World Bank Executive Board also approved in September, 1993, the establishment of an independent inspection panel to address public concerns about whether the Bank is observing its own policies, rules and procedures in the design, appraisal and/or implementation of its operations. The panel will consist of three members and will receive requests for inspection presented by: (1) parties affected by Bank projects or (2) any Executive Director.

(3) *Sustainable Development.*—We encouraged the steps taken by the MDB's to strengthen their **poverty reduction** efforts. The MDB loans support basic human needs that have increased to more than \$15.5 billion annually, nearly seven times the basic human needs elements in our own bilateral assistance program. We now want these reinforced by even greater efforts to expand the **access of the poor to social services**, including primary health care and basic education. There also needs to be a much stronger MDB effort on **family planning**.

We are actively promoting other fundamental development priorities such as greater stress on **country performance** and **market forces**, and renewed emphasis on **good governance**, promotion of **private enterprise**, and protection of the **environment**.

We are pressing the MDB's to be more pro-active in seeking out opportunities for **public participation** in all aspects of their lending activities and decisions, particularly among people who will be affected by their projects. This is good development policy. It also strengthens project quality and local commitment to the success of projects.

The United States has led efforts to strengthen **environmental performance** in all the MDB's. It shows an annual lending for the environment at \$2.8 billion.

We consider it essential that the MDB's work in partnership with their borrowers to incorporate environmental considerations into national development strategies and individual bank projects. We are encouraged by the seriousness with which the MDB's are now responding to this challenge.

The World Bank has made major strides, establishing strong policies on environmental assessment, agriculture, water resources management, energy efficiency and the power sector, and forestry. Replication of these policies, which will improve project quality and spur more sustainable growth in the regional MDB's, is an administration priority.

More remains to be done. The MDB's need to move more aggressively in fully implementing the sound environmental policies they are adopting. Environment must be more clearly established as a central and integrated component of their policy dialogue and lending strategy with borrowers.

We were pleased at the World Bank's recent \$2 million grant to the Grameen Trust of Bangladesh. We will also be pressing for the **establishment of a World Bank small projects facility** to promote local environmental and poverty reduction initiatives and strengthen outreach to local NGO's and microenterprises. This could complement the existing small grants program, which promotes discussions and dissemination of information, by ensuring that local communities and NGO's are actively involved in setting development priorities and implementing local projects.

(4) *MDB Support for Strategic Global Initiatives.*—In helping to broaden and deepen economic recovery in Latin America, promote reform in Eastern Europe and the former Soviet Union, reduce poverty in Africa and Asia, and catalyze development in the West Bank and Gaza Strip, the MDB's are providing vital support for U.S. global objectives on a scale that cannot be replicated by our bilateral programs.

(5) *Expanding Opportunities for U.S. business through the Banks.*—The United States receives the largest share of MDB-financed procurement. As noted earlier, U.S. companies have on an annual basis received MDB-financed procurement amounting to more than \$2.7 billion. The administration is engaged in a major outreach effort to further increase U.S. business awareness of the opportunities generated by the MDB's.

In another key area, the United States is working with other members to promote sound MDB financial management and to **control MDB operating costs**. Recent positive developments include:

- the elimination of first class air travel. At the World Bank, changes in travel policy enacted in 1993 will save an estimated \$18 million annually. Savings at the EBRD will exceed \$4 million.
- the World Bank's plan for zero real budget growth over the 3-year FY 1995–97 period; and
- strategic reorganization at the EBRD, with stronger country focus as well as reduced staffing.

Our achievements over the last year in improving MDB performance were made possible by the effective exercise of U.S. leadership and leverage with other member countries. We still face an ambitious development agenda ahead. However, U.S. arrears to the MDB's now jeopardize our ability to retain influence over MDB policies and operations.

The Problem of U.S. Arrears

In real dollar terms, U.S. funding for the MDB's has fallen by 40 percent since 1978. Yet in an era when continued heavy U.S. reliance on the MDB's appears inevitable, we find ourselves with large and growing arrears on our internationally negotiated funding commitments to these institutions.

The United States is the only major donor country with substantial MDB arrears. These arrears increased by \$473 million last year and now total \$847 million. If we want to preserve U.S. leadership and safeguard the very considerable benefits we receive from the MDB system—and also to continue to succeed in our efforts to strengthen the MDB's—we also need to meet our internationally negotiated, Congressionally approved, financial commitments. We can't have it both ways.

U.S. arrears also pose clear risks to the MDB's ability to respond effectively to pressing development needs in countries and regions of importance to the United States. The poorest countries relying on concessional "soft loan" financing such as IDA are most at risk since U.S. cutbacks provide other donors with the option of doing the same. Sub-Saharan Africa, which receives half of IDA funding, is particularly vulnerable.

U.S. arrears are spread across all the institutions. Clearing these arrears is not just a numbers exercise; important U.S. interests are on the line. The administration is seeking to eliminate U.S. arrears and plans to do this over a 4-year period, beginning this year with fully clearing arrears to the International Finance Corporation and the Inter-American Development Bank, and also starting to clear arrears to the World Bank and the African Development Fund.

At the same time, the administration is committed to reducing the cost to the United States of any new MDB funding arrangements. I would therefore like to brief you on the status of the four new arrangements for which the administration will request authorizing legislation later this year.

FY 1995 Authorization Request

a: Eighth General Capital Increase of the IDB.—We are working to reposition the Inter American Development Bank to play an aggressive role in reducing poverty and accelerating growth in Latin America and the Caribbean. Our goal is to ensure that all elements of society have the tools to compete fairly in a modern economy. The very strong emphasis on social sector lending will represent a commitment by Latin American and Caribbean governments to strengthen democracy through economic participation. We expect IDB 8 to provide a 50% increase over IDB 7 for social sector development. In addition, there will be forward looking policies to benefit the environment of the region. Public participation, access to information, and outside inspection will be part of the package.

In the poorer countries, the Bank will provide broad-based development support, including support for infrastructure. A key requirement of the replenishment negotiation is to generate sufficient concessional resources to meet the needs of the these countries. As the region develops, we also want to strengthen private sector activities of the IDB. We believe there is room to strengthen and consolidate these activities, especially those of the Inter American Investment Corporation, the Multilateral Investment Fund and the Ordinary Capital of the Bank itself. We hope to negotiate financial arrangements that will save substantially on expenses to the U.S. taxpayer while strengthening Bank focus on the private sector.

There is as yet no final consensus on all the key financial issues. Negotiations will resume next week and agreement may be at hand. There is a consensus on a \$40 billion capital increase. We expect the U.S. contribution will be less than its contribution to the previous replenishment. We are also working hard with the Europeans and Japanese to forge a deal that provides the Bank with substantial resources for both middle income and the poorest countries.

b: Seventh Replenishment of the AFDF.—The United States wants the African Development Bank Group to remain a strong conduit of development assistance for the continent. As we know, in today's environment, aid is allocated among programs on a competitive basis. We support the African Fund, but we believe it can improve the quality of its development activities. We want greater selectivity in project selection with a possible restructuring of a significant portion of its existing project portfolio.

Although the size of the replenishment is still under negotiation, agreement has been reached to place more emphasis on good performance and project implementation by borrowing countries. We are also pressing the Bank to place greater attention on health and education, good governance, reduced military spending levels, and sound management of its loan portfolio. We also are urging a pilot program of microenterprise development using NGO's and are promoting greater public access to information and a strengthened inspection function.

In addition, we are working very hard to strengthen the African Development Bank's financial policies. We are considering with other members ways for the African Fund to assist in addressing the burden of Bank debt owed by the poorest countries. We are also working with our African partners to encourage payment on arrears to the Bank.

c: Global Environment Facility (GEF).—We are requesting authorization for the Global Environment Facility (GEF). Both the Congress and the administration are committed to improving the global environment. We see the GEF as an essential step in international efforts to promote a broad set of actions on the environmental front. The GEF will serve as the centerpiece for international efforts in support of the conventions on climate change and biodiversity, as well as efforts to combat ozone depletion and degradation of international waters.

Our commitment to the GEF is not unconditional. Many U.S. proposals have driven the negotiations. And many of our negotiating partners have now come to support priorities enunciated by the administration and the Congress. These include functional independence for the GEF, donor oversight and project approval, and strong emphasis on access to information and public participation.

But our partners are now expecting us to provide a financial contribution. Unfortunately, after four years of GEF operations, the United States has not contributed directly to the GEF Core Fund. However, I believe that those problems which precluded a U.S. contribution in the past—namely inadequate policies on information access and public participation—will be overcome.

I believe the GEF is well on its way to being restructured in a way that advances our ambitious environmental agenda. Donors are considering a replenishment of approximately \$2 billion over four years. At the conclusion of those negotiations, hope that the Congress will agree that the United States should be a major participant.

d: Enhanced Structural Adjustment Facility (ESAF).—The administration is also seeking authorization and appropriation for a U.S. contribution of \$100 million to the Interest Subsidy Account of an enlarged and extended Enhanced Structural Adjustment Facility (ESAF) operated by the International Monetary Fund. The original ESAF was established in 1987 in response to criticisms from Members of Congress and others that the IMF did too little for the poorest member countries. ESAF provides loans on concessional terms to the poorest countries, primarily from Sub-Saharan Africa, in support of structural and economic reforms.

The ESAF is widely recognized as an effective means of promoting reform. Examples of countries that have successfully operated under ESAF programs include Zimbabwe, Uganda and Malawi. Ghana has graduated from ESAF. These countries, and others, have worked hard under their ESAF programs to achieve increased GDP growth, lower inflation and increased exports.

The success of the initial ESAF has resulted in broad international support to expand and extend its operations. More than 40 countries, including a number of developing countries, are providing more than \$7 billion in loan capital and \$2.9 billion in interest rate subsidies. The proposed U.S. contribution of \$100 million to the Interest Subsidy Account is modest, accounting for less than a nickel of every dollar provided for subsidies. It is a critical contribution, however, that demonstrates our support for the efforts by the poorest countries. It will also help catalyze contributions from other countries, and it will provide us with an effective voice in ESAF decisions.

We have been mindful of the budget constraints facing us in deciding on the size and timing of a U.S. contribution. The \$100 million being requested is \$50 million less than the U.S. contribution to the original ESAF. It will be disbursed over a period of 15 years with outlays to begin in FY 1997. We are, however, requesting budget authorization and appropriation for the full \$100 million in the FY 1995 budget to assure other contributors that the United States will meet its commitment to this highly effective facility, and to improve the Fund's ability to plan.

Asian Development Bank

The United States is also participating in negotiations on a general capital increase for the Asian Development Bank. This is an important institution in an area of large and growing U.S. economic and strategic interests. Although negotiations could conclude as early as this spring, the administration will not be seeking necessary U.S. legislation until FY 1996.

Conclusion

The administration will of course continue to consult with the Committee as negotiations in the MDB, AFDF, GEF and ADB progress. We are optimistic in all cases that agreements will be achieved which fully merit Committee support.

FY 1995 is a pivotal budget year for the MDB's. We want to work closely with this Committee and with other members of the Congress to meet our commitments to the MDB's and sustain our stake in these institutions.

In concluding, Mr. Chairman, I would like to underscore both the importance of strong United States support for the international financial institutions and this administration's unwavering commitment to work with these institutions and their memberships to strengthen their development performance.

Senator SARBANES. Well, thank you very much, Secretary Summers.

We appreciate the testimony from both of you. I will start off with a few questions, and then I will yield to my colleagues.

The multilateral banks are included in the sustainable development title of the administration's bill, as I understand it, is that correct?

How do we square the goal of promoting sustainable development with that of promoting growth through trade and investment, which are both put forward as objectives of the administration's proposal?

Mr. SUMMERS. I can speak to that. I can speak to how the MDB's do both those things synergistically. As to the design of the Foreign Assistance Act, I will defer to Joan.

Clearly, one of the things we have learned is that successful economic development often makes possible environmental investments that would not be possible without successful economic development.

So directly, support for sustainable development, support for environmental projects, operates to improve the environment. But more generally, support for a healthier economy in the developing world makes it possible to engage in environmental investments. It makes it possible for them to afford stricter environmental standards than would otherwise be possible.

So I believe that if one thinks broadly, all of the activities of the MDB's in promoting growth and investment contribute to sustainable development.

Moreover, the share of their particular activities that is directed at explicitly environment projects has increased very substantially in the last 3 or 4 years and is on a trend toward increasing further.

For example, MDB efforts in total family planning is now three or four times the level that we are able to afford bilaterally.

Senator SARBANES. Well, do you think the criteria and objectives of sustainable development that apply to bilateral programs ought to apply to the MDB's?

Mr. SUMMERS. I think the broad principles that the development ought to be sustainable, that there ought to be openness, and so forth, certainly should apply to the MDB's.

You get into somewhat different situations when you are looking at a situation where you are asking a government to borrow money rather than when you are asking a government to accept a grant.

So, for example, a central government has to be much more involved in who can borrow money on its behalf with its guarantee than in the question of who can receive a grant. So there are aspects of MDB activity that are not perfectly parallel with what we do bilaterally. But it seems to me that the same kinds of principles should certainly hold.

Senator SARBANES. Did you want to add anything, Secretary Spero?

Ms. SPERO. No. I think just the larger point that there is no conflict in our view between growth, the growth through trade, and sustainable development in all of its dimensions. And the MDB's are one way that we can execute that policy.

Senator SARBANES. Well, now, that really cannot be the case. Obviously we encourage trade and investment through programs that do not carry a sustainable development objective, do we not, frequently?

Ms. SPERO. Well, actually, Mr. Chairman, in many of our programs, OPIC, for example, TDA, and EXIM, all have provisions which require them to support only projects which are environmentally sustainable.

So, in fact, their guidelines have a certain parallel with the kinds of guidelines we have in our strictly development programs.

In addition, those agencies which are designed as trade promotion, as you know, also are encouraged through their guidelines to promote environmental exports, export of environmental technology, for example, or other projects which support the environment. So I see a link between those two parts.

Senator SARBANES. If we were to impose on all trade promotion and investment promotion policies the sustainable development goals, objectives and criteria, would that cause a problem for you?

Ms. SPERO. I do not again see that those need to be in conflict, particularly in areas where we are providing certain types of aid, whether concessional or financial support, it seems perfectly appropriate for us to choose with limited resources to focus on those activities which both promote growth and are environmentally sustainable. So I do not really see a conflict there.

Senator SARBANES. Well, let us be very clear, because we have a lot of people who are pushing us not to make any money available unless it meets sustainable development criteria, arguing that all aid of any sort ought to meet that threshold.

Now, are you telling me that in effect you are already doing that and therefore to require it would not create any difficulties with any of these programs?

Ms. SPERO. Well, I think it varies from program to program. In some cases there are environmental impact statements. In some cases there is an effort to use positive support to encourage environmental projects, so I think it varies with the individual case.

Senator SARBANES. Well, I am not getting an answer, and I need to get it, because if it does not create a problem for you, then perhaps we should go ahead and do it in the legislation.

If it does create a problem, we need to know that. My perception would be that you have trade promotion programs that do not meet the sustainable development criteria. Now you are telling me that in effect they all do that, and if that is the case, fine. We will just bring them all under the rubric of sustainable development.

Senator KASSEBAUM. Well, Mr. Chairman, let me ask: how do you define sustainable development? I think it is in the eye of the beholder.

Senator SARBANES. As they define it in their legislation. "Policies concerning sustainable development." And then they have a list of

programs and objectives and the rationale for it and so forth and so on.

Senator KASSEBAUM. All right.

Ms. SPERO. Well, I think that there are—

Senator SARBANES. You have not put all of your aid into the sustainable development title, correct?

Ms. SPERO. Correct.

Senator SARBANES. OK. Now, some are arguing, some have testified to us and may yet testify, that they think all of our aid ought to be held accountable to the sustainable development criteria.

Now if you are telling me that in effect you already do that and those are the criteria you would apply in any event, then there is no problem in doing that. But I am trying to determine whether that is what you are telling me.

Ms. SPERO. I think what I am saying is, the way the bill is constructed, as you know, there is the sustainable development title. In the economic area, there is also a section on building prosperity.

Under that building prosperity, we have a number of programs: OPIC, EXIM, and the like, which are more targeted toward traditional trade or export—

Senator SARBANES. But you just told me that all of those programs do promote sustainable development, and if they do it, then we could put them in the sustainable development title, can we not?

Ms. SPERO. Well, let me tell you what I meant to say. I do not know what I did say, but what I meant to say is that in the area of many of the trade promotion programs, they have a certain environmental dimension, a certain environmental support or environmental criteria.

Sustainable development is not incompatible to growth-prosperity, but in some areas, in other titles, for example, in humanitarian assistance, it does not seem to us to be appropriate to have sustainable development criteria.

So sustainable development criteria, as one might define it in the environmentally correct sense with the population and basic democracy needs, is appropriate for that particular title. One would try to be sensitive and attentive in the other areas without necessarily having exactly the same criteria.

Senator SARBANES. I yield to Senator Kassebaum.

Senator KASSEBAUM. Thank you, Mr. Chairman.

Let me go back to maybe a few specifics here that I am trying to understand. One is on the debt, and the request this year includes \$7 million for nonconcessional debt reduction, which is the second part, I believe, of a 3-year tranche of \$21 million.

But many, including many of our European allies, have criticized us for not being bolder in this approach on debt reduction.

I am pleased we have taken this step. I have long felt that for particularly the poorest of the African nations, it was only realistic to assume that this could well be necessary.

But even if we address the bilateral debt burden, it appears that there is going to be a growing problem with the multilateral debt.

In Africa, for example, in 1991, the multilateral development banks accumulated or accounted for more than 30 percent of its debt, and this percentage will only increase in the future.

My question is: in light of the Kaplan article, which I read, too, with great despair several weeks ago and which largely focused on Africa, west Africa in particular, but it could have reflected through much of Africa, what is the United States going to address the multilateral debt problem? Do you think we can do more?

And second, since you, Assistant Secretary Summers, raised the piece, "The Coming Anarchy," by Kaplan, and you were at the World Bank, watched much of this as it has evolved, do you have any answers to the Kaplan article?

So I am sort of tying two questions together. One, the question on the debt relief. Do we need to do more? And are we looking at any other ways to address the multilateral debt problems?

Mr. SUMMERS. Let me make three points with regards to your questions. First, I think there is no question that more debt relief for the poorest countries is very important, and the problem really is budget resources to do more of it.

We are the only country with a budget scoring system that causes it to impose a budget cost when it reduces debt. And I think it is far from clear whether that is an appropriate system. It is something that came out of the Credit Reform Act, and one could certainly see the logic if forgiving debt is giving people something.

On the other hand, I am very skeptical that that money would ever be repaid. So I think we may well be charging ourselves too much and therefore able to do too little of it. It would certainly be better if we were able to do more.

As far as multilateral debt is concerned, I think getting involved in direct forgiveness of World Bank or African Development Bank debt would be a mistake, because the cost to the new resources those institutions could provide would, I think, exceed the benefit to the borrowing countries.

What I think is appropriate is to look for ways of providing multilateral support to help countries meet their debt obligation, and the so-called fifth dimension program at the World Bank is directed at using some financial engineering to help those countries that are in particularly serious straits.

As for the broad problem, it is an enormously difficult one, and I do not think that there is any silver bullet. I think if there is anything we should know is that it is a problem that is going to take generations to address, and that points me, as a priority, toward investments in children, through basic health care, and most importantly through education, particularly through the education of girls.

I think in some cases we have run, and the banks have run, their assistance programs in too central a way, and so they have strengthened somewhat kleptocratic governments and that has been unfortunate.

So approaches that are more diffused and more on the ground are, I think, more likely to be effective. But I would not want for a moment to pretend that there were easy answers to these questions.

Senator KASSEBAUM. That leads me—are we paying attention to that?

Senator SARBANES. We are trying to, yes.

Senator KASSEBAUM. I just got started.

Senator SARBANES. All right.

Senator KASSEBAUM [continuing.] To something that has bothered me in the past in a way, and that is coordination between aid and trade programs. And I guess, Assistant Secretary Spero, I would like to ask you, because you mentioned in your testimony the Trade Promotion Coordinating Committee, which is designed to coordinate EXIM bank.

Ms. SPERO. Well, all of the export programs.

Senator KASSEBAUM. All right. OPIC and TDA, but of course that falls under different committee jurisdictions. EXIM is in the banking committee. How successful do you think it has been as a coordinating mechanism? And is AID part of the committee?

I find it very frustrating. It seems to me instead of being able to sort of pull functions together, it is the same with multilateral and bilateral aid.

I guess when we speak to them, the MDB's, it is sort of how closely AID associated in any policies undertaken by the multilateral development banks? So again, I am kind of tying several things together. But I think it is very important for us to sort of understand in a better fashion how these things work and work together.

Ms. SPERO. Well, I think there is no doubt, particularly in an era of declining resources, that we can get a lot more bang for the buck and a lot more efficient operation by improving our coordination.

We are doing that with the resources available to us, on the expert side for starters, and that is really the goal of this Trade Promotion Coordination Committee. It involves 19 agencies and AID is involved.

It also includes the Environmental Protection Agency, which has some very interesting environmental technologies which could be developed and commercialized for export. So it is a broad coordinated effort.

Not only is there the committee, which is trying to develop a strategy in a general sense for exports, but there are other ways that we are coordinating projects that are coming out of this committee. And of course, Senator, projects are just beginning to roll out, but let me give you a couple of examples.

One example is an effort that we are instituting at our Embassies, and that is to have a strategic commercial plan so that the Embassies will develop in coordination with all of the different agencies, because of they are represented within each Embassy.

We have the Foreign Commercial Service. There is the Foreign Agriculture Service, et cetera. So each Embassy will have a plan and a target that will—

Senator KASSEBAUM. Then just one person that will represent all of those interests?

Ms. SPERO. I am sorry?

Senator KASSEBAUM. Would you have separate officers for each?

Ms. SPERO. There will still be different representatives, but they work together increasingly in what we in the embassies call the country team, which is led by the Ambassador.

I myself visited one of our Embassies in Malaysia to see how the country team operates, particularly on the export promotion side. And increasingly, it is a very useful vehicle.

And not only do we have the coordination effort under the Ambassador, because the Ambassador in the field is the lead and has the authority to coordinate, but now they are putting together, at the request of the TPCC, a strategic country plan, something I am familiar with having come from business, but which we have not had yet before in the Embassies.

We are also working on one-stop shopping to get to the customers here in the United States, so we are setting up a series of access points for particularly small and medium sized exporters in the United States so they can understand what they can get and know that OPIC has a small program for small businesses, that EXIM has special resources. I think actually one is being set up in Baltimore, if I am not mistaken.

So we are trying to get to the customer, we are trying to coordinate in the field. There are a number of other efforts. Let me just mention one to you.

There was a decision taken by the TPCC, a recommendation to the President, that we use some of our foreign assistance monies for meeting the support programs of other countries in the area of tied aid.

We would prefer not to use tied aid in some cases. We get more bang for the buck by having disarmament, if you will, by persuading other countries as we have through the OECD to reduce the level of tied aid.

But when other countries do use tied aid, the TPCC recommends that we have the ability to counter their subsidy programs. So we have put together a \$150 million program. Again, it was a TPCC recommendation to counter tied aid efforts of other countries.

So there are a variety of programs that are coming out, and I think it is a very good process and I think it is yielding some positive results.

Senator KASSEBAUM. Well, that sounds interesting. I am pleased to hear that. I think that it is good to have the Ambassador play the lead, pulling type different program together.

Just to go back to the multilateral development banks for a moment. Does the bilateral and multilateral assistance have a coordination mechanism at all?

Mr. SUMMERS. Let me just say something about coordination and the MDB's. I should thank the committee for having given us a useful wake-up call on this issue when I testified last year, and this was a point that was stressed.

We have an interagency working group on multilateral activities that meets weekly to review what is going on in the MDB's. It includes representatives of both AID and EPA.

After a several year lag, the so-called National Advisory Council on the International Monetary and Financial Policies has started up again and has had meetings which Joan and I have participated, in the last few months.

In addition to that, there is a group whose informal name is the Pelosi Group and whose formal name is the Interagency Committee on Environmental Issues in the multilateral banks. It meets to review the environmental aspects of particular loans.

So those are the three ongoing mechanisms. In addition to that, we set up task forces interagency in connection with each of the re-

plenishment negotiations: the GEF, the Inter-American Development Bank, the African Development Fund, the Asian Development Bank, and those all include representatives of USAID. Some of that, much of that, was in place. I think we have strengthened and intensified the cooperation.

The place where we have actually made, I think, a larger change over the last year in the amount of consultation is through much more intensive involvement of the NGO's in addressing particularly the environmental and also the human needs aspects of what the banks do.

And for the first time, we have included NGO's in our representation as observers in, for example, the negotiation of the global environment facility. So we have been working very hard to have better coordination with other things that are going on.

Frankly, I think we have succeeded quite well at the level of policy setting. I still worry, but it is not something that we can really manage on 15th Street when there are things going on in Côte d'Ivoire—what the World Bank team is doing and what the USAID team and what the African Development Bank team are doing on the ground in Côte d'Ivoire. How well they are coordinated is not something I am in an easy position to judge or influence.

But on the policy questions, broad areas of responsibility, I feel like we have made some real progress, both in our interagency interaction and in our interaction with the NGO's.

Senator KASSEBAUM. Are we going to have a chance for other questions?

Senator SARBANES. Yes. Why do we not rotate it a bit, though, in case members cannot stay.

Senator KASSEBAUM. That is what I meant.

Senator SARBANES. So we will go to Senator Jeffords. Let me just say that this is the first report of the Trade Promotion Coordinating Committee toward a national export strategy.

We put that in the Export Promotion Act in 1992 when we passed it, requiring this committee and requiring them to develop an export strategy, and I must say I think they did a very good job.

This really is a quantum leap in terms of the executive branch coordinating, developing a strategic plan with respect to exports and so forth. I think a lot of credit is deserved downtown, and they are now implementing a lot of the proposals. Senator Jeffords.

Senator JEFFORDS. Thank you, Mr. Chairman.

I would like to make my statement part of the record. First, I would like to express my concern about the MDB's in Africa and the amount of debt, that countries in the sub-Saharan area are carrying which I believe is about equal to the GNP's of those countries. I think we are pouring more money out than the income in some of those areas. So you might want to comment on that.

But I would like to turn to the questions involving the goals of the loan process and whether they are reaching these goals.

A recent internal World Bank report found that an increasing percentage of the bank projects are failing to meet their own declared goals, especially in the environmental social areas.

One reason cited for this is the tremendous pressure for the banks to move money quickly or the pressure to lend problem. The report suggested that the bank develop environmental and social

indicators, for all loans so that their progress can be measured by more than just the rate of return.

What steps has the World Bank taken to address the pressure to lend and improve the loan portfolio first? And second, has any progress been made on the developing environmental and social indicators for loans in the World Bank?

Mr. Summers?

Mr. SUMMERS. Let me just briefly address your African concern. African debt is a big problem. The reason why IDA is so important is that IDA provides concessional resources, those resources where you do not have an immediate buildup of debt, and that is clearly the way, that is clearly the kind of support that these countries are going to need for many years.

Unfortunately, if the United States does not meet its IDA contributions, we are going to see other countries go into arrears, and that program is going to crumble and we are going to lose the principal nondebt-creating source of flows to Africa.

But for most of the countries borrowing, this is not possible. And indeed, most of them are now receiving most or all of their support in concessional form.

You referred to the question, Senator, of the so-called Wapenhans report that was done by the World Bank. As I mentioned in my testimony, because we found that such a sobering and revealing report, we have asked each of the institutions to do their own similar reports, and they have found similarly sobering kinds of conclusions.

There are a set of specific followups that the World Bank took in a paper that was presented to its Board some time ago. They go to rather technical aspects of the loan procedures, but I would say the two most important changes that I think will result over time are a change in the reallocation of effort from loan preparation to loan supervision. So you will see a much larger fraction of staff time going into the supervision of loans.

And the second, and I think this will proceed, frankly, more slowly and for my judgment too slowly, will be an increase in the fraction of staff who are located in the field.

This is something where each of the banks is recognizing that, with the kind of modern telecommunications technology, it is probably appropriate to have a larger share of staff in the field than they had before.

I would say in the institution's defense—and they feel pressure, I assure you, most of the time from the U.S. Treasury—that they are being in a way hit by the U.S. Government in two directions.

On the one hand, there is criticism to do smaller projects, do them in more places outside of the capital, do them less through the central government, more involvement in the field, and with much more supervision. That is one line of criticism.

And the other line of criticism is have fewer staff, have a smaller administrative budget, spend less money internally. Those two objectives are somewhat in conflict.

For example, in a case of the bank, just as it costs the State Department two or three times as much to post a Foreign Service officer abroad as it does to post that Foreign Service officer in the United States, the same kind of issues arises for the MDB's.

That is not to let them off the hook. There are plenty of things that can very usefully be cut, but I think that is helpful in understanding what their problem is.

Just to give a bottomline answer to your question: it is more money for supervision, more people in the field, more extensive consultation with those directly affected and their NGO representative.

Senator JEFFORDS. What about the developing and environmental and social indicators for the loans to kind of establish them to sort of workable standards?

Mr. SUMMERS. I know less about that than I should. Let me tell you what I know and I will give you a longer report for the record.

[The information referred to follows:]

The World Bank's staff is actively working to develop such project and sector-specific indicators. Once developed, these indicators will be identified in project documents, and will serve as benchmarks against which performance will be measured. Bank staff have been discussing technical details closely with outside experts.

Environmental sustainability indicators are being developed for several areas, such as urban environmental assessment, housing conditions, health, transport, noise, and wastes. Additionally, the Bank is developing guidelines for analyzing the social impacts of Bank-assisted projects. These guidelines should lead to improvements in targeting, delivery, community participation, and project sustainability.

The Bank's Poverty Handbook, which was first issued in 1992, provides specific guidance for undertaking poverty profiles and assessments, integrating poverty objectives into Bank operations and country strategies, and monitoring progress in achieving these objectives.

Finally, it should be noted that the Bank is making a much greater effort—largely at the urging of the United States—to involve NGO's and affected communities in project design and implementation. Activities in this area include establishment of the participation Fund in 1993, and opening the Project Information Center in January, 1994.

There has been a lot of work that has gone on, and it is reflected in the statistical appendix to the World Bank's World Development Report each year, on environmental and social indicators of the whole country's performance.

They are much better environmental indicators that tell us which countries in Africa are doing well in terms of dealing with the certification and which are doing poorly, much better indicators of those kinds than we have had in the past, and they have worked very hard on that.

I am not able to tell you specifically what has happened in connection with the environmental and social indicators associated with particular loan projects. That is not to say that nothing has happened.

It is just to say that I do not know. So I will get back to you with an answer in writing on that part of it, although I do know that there has been a lot of statistical effort moving beyond sort of dollar GNP figures to environmental and social things at the level of looking at whole countries.

Senator JEFFORDS. I appreciate that because I am very interested in that.

Thank you, Mr. Chairman.

Senator SARBANES. Thank you very much, Senator Jeffords. Senator Kassebaum.

Senator KASSEBAUM. Well, I would just like to take this opportunity to ask Assistant Secretary Summers about the Russian aid.

You just got back from a G-7 meeting, I believe, and there were some agreements worked out that the Russians were going to undertake some reforms. Is that not correct? Could you just bring us up to date on your thoughts on Russian aid?

Mr. SUMMERS. Well, Senator, about two-thirds of the G-7 meeting was devoted to Russia. The finance ministers, Secretary Bentzen, and Chairman Greenspan met with the representatives of the IMF and the World Bank, and they met separately with representatives of the Russian government. The message of the G-7 finance ministers, in which the United States was fully supportive, was two-fold.

The importance of reform, the importance of continuing reform, of accelerating reform, and of not slowing down on reform—these are necessary prerequisites to large scale financial assistance associated with the IMF. Without a credible program to bring down inflation, direct cash into the budget is simply going to be wasted and the principle of conditionality has to be respected. That was the first message.

The second and, I would say, more important message was the importance of what I would call bottom-up assistance as a complement to the kind of top-down assistance that the IMF provides. That is what we are doing in our bilateral program. That is what the World Bank is trying to do in Russia.

There have been a lot of difficulties in the implementation side, getting the Russians and the institutions working together on fixing oil pipes, on building schools, and I think the ministers delivered that message very clearly to the Russians. Those implementation problems really did have to be addressed.

I think there was some discussion of the support implementation group, which you may recall was a U.S. initiative at last year's summit, and whose director, Michael Gillette is now on the job in Moscow, and of the contribution that it can make.

I would say that I was somewhat reassured by what the Russian representatives told us. The fears that one had a month ago that perhaps the new Russian government would pursue policies that would be completely financially irresponsible and lead to hyperinflation, which were fanned by some press reports, do not appear to be being borne out.

It was clear that Finance Minister Dubinin wanted to have a credible program that would keep inflation under control.

At the same time, when you are in inflation rates of double digits a month, you are in a very, very difficult situation. It is obviously a complex political environment, and so we will have to wait and see what unfolds.

Senator KASSEBAUM. Thank you very much.

I know Senator Boren is here. I had a question for Assistant Secretary Spero regarding Pub. L. 480. I believe it has been reduced in the budget, but we will visit about that later.

Senator SARBANES. Well, we thank you very much. I know we will be staying in close touch. And, Secretary Summers, I need to get from you or your people the rationale for how you propose to work out the arrears, why you are doing it the way you are doing it amongst the different institutions.

Mr. SUMMERS. Do you want an answer now?

Senator SARBANES. No, I think we will get that from you.

Mr. SUMMERS. As I say, it will be a clearer answer if you wait for it in writing.

[The information referred to follows:]

We now have \$847 million in arrears to the Multilateral Development Banks (MDB's). This is almost half the size of our annual scheduled payments. For that reason and in view of current budgetary constraints, the Administration has deviated from past practice and submitted a budget request for less than the full amount owed the MDB's. We did not believe that full clearance of arrears in FY 1995 was "do-able." As a more realistic alternative, we worked closely with OMB to design a plan that would clear our arrears over the next four years.

Clearance of hard window arrears makes the most headway, per dollar of budget authority, in regaining lost voting shares. Arrears to the hard windows are also small relative to those of the soft loan windows. Accordingly, the first year of the four-year workout period concentrates on clearing arrears to MDB hard windows (i.e., International Bank for Reconstruction and Development, International Finance Corporation, Inter-American Development Bank, Inter-American Investment Corporation and African Development Bank).

Senator SARBANES. OK. Thank you all very much. We appreciate it.

We now turn to the second topic, the aid and trade issues which were on our agenda. We are going to hear from our colleagues, Senator David Boren of Oklahoma and Senator Joseph Lieberman of Connecticut.

We will begin with you. You are to be followed by a panel that will be discussing this aid and trade issue, including people from the Chamber of Commerce and the AFL-CIO and the Institution for International Research and the Coalition for Employment through Exports.

Senators Boren and Lieberman and others, Senators Byrd and Baucus and Roth, introduced a bill last summer on this subject. Of course, the administration's proposal has come up subsequently to that, so I do not know.

I would be interested if you have any observations on how much of what you were putting forth might have been included by them. I think that would be very helpful to us. But we would be very happy to hear from you at this point.

STATEMENT OF HON. DAVID L. BOREN, U.S. SENATOR FROM OKLAHOMA

Senator BOREN. Thank you very much, Mr. Chairman and Senator Kassebaum.

I am really pleased to appear before you today to discuss an issue of great importance to our future economic prosperity: changing our foreign aid program in a way that will create more jobs here at home and more markets for our products, a concept as "Aid for Trade."

I am encouraged that the subcommittee has decided to take up the issue of Aid for Trade within the context, as the chairman just said, of the Peace, Prosperity, and Democracy Act of 1994.

In the beginning, I want to commend the administration for making the reform of America's foreign assistance program a high priority this year. My objective this afternoon is to discuss the proper role of aid for trade in the new foreign assistance framework.

As we reexamine and revise our foreign assistance structure, we must keep in mind that American taxpayers demand a return on

their foreign investment. Foreign aid can benefit the recipient nation and simultaneously promote the economic interests of the donor.

With that understanding, I joined others in introducing in the 102d Congress the Aid for Trade Act of 1991, which was cosponsored, as has been said, by then-Senator Bentsen, Senator Byrd, Senator Baucus, and Senator Lieberman. The revised version of that legislation passed the Senate unanimously.

Last spring, I, along with Senators Byrd, Baucus, Lieberman and Roth, introduced S. 722, the Aid for Trade Act of 1993. This bill set specified limits on the amounts of U.S. aid that could be distributed as cash with no strings attached.

In addition, it increased the share of our aid devoted to capital projects by granting the Trade and Development Agency, TDA, substantial new authority and funding. The bill also tightened existing Buy America regulations in our foreign aid program.

Although our bill called for changes in the Foreign Assistance Act of 1961, as the chairman has just indicated, I believe that these principles are even more important today as we begin crafting a new foreign assistance program.

The administration has placed promoting growth through trade and investment one of the six main objectives of this foreign aid bill.

This emphasis demonstrates that trade and export assistance are important foreign policy tools and must be considered on an equal plane with the bill's other objectives.

Title V of the bill outlines the activities of a number of agencies that are vital to the implementation of Aid for Trade: the Overseas Private Investment Corporation, OPIC; the Trade and Development Agency, TDA; and the Export-Import Bank.

OPIC is a proven and effective vehicle in aiding American businesses entering the markets of developing countries. The bill also addresses an agency I have long supported because of its commitment to Aid for Trade principles.

The TDA provides funds for feasibility studies, architectural and engineering design, and other activities related to development projects. TDA opens the door for American businesses to the markets of developing countries.

The administration's bill also recognizes that EXIM can complement sustainable development programs in helping expand United States exports.

The administration has create a \$150 million capital projects fund with EXIM to help American businesses become involved in infrastructure projects located in developing countries.

This fund, combined with the existing EXIM war chest, as it has been called, that is designed to combat tied-aid practices of other countries, will allow American businesses to compete for capital projects on a more level international playing field. This effort is one of the cornerstones of Aid for Trade.

Mr. Chairman, while I commend the administration for the direction it has taken in the provisions I have just outlined, with OPIC, EXIM, and TDA, I believe that more needs to be done.

The purpose of Aid for Trade is to make fundamental changes the way our country gives out foreign aid. I believe that American

taxpayers are angered when our government gives away their hard-earned tax dollars without receiving anything in return, or without being perceived as getting anything in return.

At the same time, our economic competitors have used their foreign aid programs not only to help other nations but to create new markets for their own products at the same time. According to many estimates, the United States loses \$2.4 to \$4.8 billion a year in exports to competitors who use foreign aid in export financing.

And President Clinton said in May of last year, "The work that exporters do to expand jobs and growth in fundamentally important, because every time we sell \$1 billion of American products and services overseas, we create 20,000 jobs here at home."

So the use of foreign aid by other countries in a way that we are not now using it translates into a loss of 50,000 to 100,000 American jobs each year.

I would propose five improvements in the new foreign assistance program that is before us, and I realize that it is now stated in this bill in a more generalized way in terms of objectives, that some of these changes would be more appropriately placed in authorization and appropriations bills as the process unfolds.

But I think there are things we should consider at this time, as you look at the overall legislation, which, as I have said, I think moves in the right direction in general.

First, I think we should significantly reduce the amount of no-strings-attached cash that our Government hands out to other nations. We should assure that these funds be used to purchase American goods and services whenever possible.

The Aid for Trade bill set limits on the percentage of certain foreign assistance funds that could be handed out as cash transfers; that is, payments that are not used to purchase United States goods and services or to repay foreign debt owed to the U.S. Treasury.

You could always propose an exemption from any limits on cash, for that cash that was going to other countries to help them repay loans back to the United States Treasury.

In the first year after enactment, under our bill, no more than half of the foreign aid could be given as cash transfers. And by the fifth year, under our proposal, it would shrink to 30 percent.

Although the new foreign assistance bill creates different categories of foreign aid, similar limits could be included in the legislation, and I would hope this committee might consider specific limits on cash transfers be included in the section related to AID programs to support broad-based economic growth.

To ensure that this transformation actually occurred, AID could be required to report to Congress annually on its compliance with moving from cash toward programs that will assure that American products are used.

Second, we should place a greater emphasis on capital projects. Capital projects provide roads, phones, schools, power lines and other building blocks of development. These projects are the form of foreign assistance which provide the highest level of return to American businesses and workers.

Until the early 1970's, AID correctly devoted a much larger percentage of its funds to these projects. Currently, however, we spend

a smaller proportion of our foreign aid budget on infrastructure projects than any other OECD nation. OECD donors as a whole allocate about 24 percent of their aid for economic infrastructure, with Japan as the leader at 39 percent.

The United States, on the other hand, spends less than 8 percent on economic infrastructure, with a much greater emphasis on social programs and cash transfers.

The new foreign aid program, therefore, I believe, should require the United States to increase the percentage of our foreign aid spent on capital infrastructure projects to at least the OECD average at the same time that we reduce cash transfers.

This would be actually the mechanism used for reducing the cash transfers, or one of the important mechanisms. I believe that the bill should contain provisions calling for a tripling of the percentage of foreign aid used for capital projects over the next five years. This is something that would have to be phased in, of course.

Third, I believe we should make the Trade and Development Agency a higher priority and fund it appropriately. As I have indicated, since its inception, TDA has generated over \$5 billion in exports involving over 1,000 U.S. companies in 47 states and the District of Columbia.

In fiscal year 1993, TDA was involved in more than 300 projects for 64 countries in areas such as energy, transportation, water and environment, manufacturing and telecommunications.

For every dollar it has spent, TDA has generated an average of over \$25 in increased exports of U.S. goods and services. That is a very impressive return.

TDA's fiscal year 1994 budget is \$40 million. Let us compare that figure with what one of our competitors spends on feasibility studies of like kind. In 1991, Japan spent \$200 million on such studies, eight times as much as the United States that year.

In the fiscal year 1995 proposed budget proposed by the President, there is only a \$5 million increase suggested for TDA. I believe, quite frankly, that is insufficient. Last year we called in our bill for \$400 million to be transferred from other AID programs to TDA.

I realize that we were trying to make a statement with that program, that that kind of increase might well be too large to occur in any one year. I do think that legislation should require incremental increases so that TDA reaches a comparable funding level in the near future.

For fiscal year 1995, I believe that TDA should be funded at a minimum of \$80 million, doubling last year's budget. That would still leave us with far less than half the amount of expenditure being made by Japan for that purpose.

Fourth, the EXIM Bank should aggressively use the funds it receives as part of the foreign aid budget. Very often, we have given the EXIM Bank tools, such as the war chest, that have not really been used.

I believe that Congress should require periodic reports from the EXIM on its use of this fund and on the war chest and the new fund argued for and advocated by the President.

Finally, I believe the new bill should contain strong procurement requirements. I was encouraged by the procurement language al-

ready included in the administration's proposal. I think it goes far in the right direction.

However, I think we should consider extending it further. The Aid for Trade bill included very specific requirements that were necessary for new foreign assistance programs.

You may recall, we had a number of horrifying examples in the past. I remember the Mozambique aid program was one where we ended up spending millions of dollars developing an automobile market in that country for Japanese and German produced automobiles, and not a single American automobile ended up being sold as a result even though we made the whole dealer infrastructure for the retailing of cars in that country.

Even more importantly, we must make sure that these provisions are strictly enforced. In the past, they have been easily ignored.

I believe that the AID administrator, again, should be required to submit a report to Congress on a regular basis detailing procurement by the agency of U.S. commodities and services and identifying weaknesses in the program.

So in conclusion, I think that the current legislation before you is a great step in the right direction. It has much to commend it in terms of the general goals that it sets and the framework and the direction it sets.

But my theme today is a simple one: whenever possible, American foreign aid dollars should be used to buy American goods and should not be used to benefit our competitors.

By using foreign assistance to promote the broad objectives of American foreign policy, we have the greatest opportunity to create a broader and stronger constituency for foreign aid here at home.

I truly believe that if Americans understand that there is a direct benefit flowing back in terms of the creation of jobs here, they will be more sympathetic to the use of American dollars to meet the very real needs of those in other countries that we have been trying to meet in the past.

At a time when both public and Congressional support for foreign aid is shrinking, these proposals, I believe, offer us the best opportunity for implementing the right kind of program, one that is consistent with our American interests and one which would be sustainable in the long run.

Again, I want to thank you, Mr. Chairman and members of the committee, for letting me take time and, let me say, for your personal interest in this subject. We have discussions on the floor in the past on this matter.

Other members of the committee have entered into those discussions as well, and I know that it is not simple to bring about these changes. They have to be phased in over a period of time, and we have to act with care in doing so.

But I do think it is important that we move in this direction expeditiously and with real deliberation.

[The prepared statement of Senator Boren follows:]

PREPARED STATEMENT OF SENATOR DAVID L. BOREN

Thank you, Mr. Chairman, and members of the Committee. I am pleased to appear before you today to discuss an issue of great importance to America's future economic prosperity: changing our foreign aid program in a way that will create more jobs here at home and more markets for our products—a concept known as

"Aid For Trade." I am encouraged that the subcommittee has decided to take up the issue of Aid for Trade within the context of the Peace, Prosperity, and Democracy Act of 1994.

I commend the administration for making the reform of America's foreign assistance program a high priority for this year. The Peace, Prosperity, and Democracy Act is more than simply a foreign aid bill; it is an attempt to provide a comprehensive statement of the administration's foreign policy goals.

My objective this afternoon is to discuss the proper role of Aid for Trade in the new foreign assistance framework. As we reexamine and revise our foreign assistance structure, we must keep in mind that American taxpayers demand a return on their foreign investment. Foreign aid can benefit the recipient nation and simultaneously promote the economic interests of the donor. With that understanding, I introduced in the 102nd Congress the Aid for Trade Act of 1991, which was cosponsored by Senators Bentsen, Byrd, Baucus, and Lieberman. A revised version of that legislation passed the Senate by an overwhelming vote of 99 to 0.

Last spring, I, along with Senators Byrd, Baucus, Lieberman, and Roth, introduced S. 722, the Aid for Trade Act of 1993. The Aid for Trade bill set specified limits on the amount of U.S. aid to be distributed as cash with no strings attached. In addition, it increased the share of our aid devoted to capital projects by granting the Trade and Development Agency (TDA) substantial new authority and funding. The bill also tightened existing "Buy America" regulations in our foreign aid program.

Although our bill called for changes in the Foreign Assistance Act of 1961, I believe that these principles are even more important today as we begin crafting a new foreign assistance program.

President Clinton has stated a desire to put economic policy at the heart of his foreign policy. The Trade Promotion Coordinating Committee, chaired by Secretary of Commerce Brown, issued the clearest statement of this new policy in its September 1993 report to Congress. The report opens with the following statement: "America's future depends on our ability to compete successfully in the international marketplace." According to this new strategy, America must export in order to grow, and government must play a more focused role in helping the private sector sell more goods, create more jobs, and compete more successfully overseas. We must ensure "that every dollar is spent wisely and serves the public in the best way possible." This idea lies at the heart of Aid for Trade.

The administration has placed "Promoting Growth through Trade and Investment" as one of the six main objectives of its foreign aid bill. This emphasis demonstrates that trade and export assistance are important foreign policy tools and must be considered on an equal plane with the bill's other objectives. Title V of the bill outlines the activities of a number of agencies that are vital to the implementation of Aid for Trade: the Overseas Private Investment Corporation (OPIC), the Trade and Development Agency (TDA), and the Export-Import Bank (Ex-Im).

OPIC is a proven and effective vehicle in aiding American businesses entering the markets of developing countries. When it decides on projects to support, OPIC's threshold question is what impact this project will have on our economy, our businesses, and our labor. Without costing the United States government a cent, OPIC generates jobs, increases exports, protects the environment, and reduces the federal deficit. It is an Aid for Trade showcase.

The bill also addresses an agency I have long supported because of its commitment to Aid for Trade principles. The TDA provides funds for feasibility studies, architectural and engineering design, and other activities related to development projects. TDA opens the door for American businesses to the markets of developing countries.

The administration's bill also recognizes that Ex-Im "can complement sustainable development programs in helping to expand United States exports." The administration has created a \$150 million capital projects fund within Ex-Im to help American businesses become involved in infrastructure projects located in developing countries. This fund, combined with the existing Ex-Im "war chest" that is designed to combat the tied-aid practices of other countries, will allow American businesses to compete for capital projects on a more level international playing field. This effort is one of the cornerstones of Aid for Trade.

Mr. Chairman, while I commend the administration for the direction it has taken in the provisions I have outlined, I believe that more still needs to be done.

The purpose of Aid for Trade is to make fundamental changes in the way our country hands out foreign aid. American taxpayers are angered when our government gives away their hard-earned tax dollars without receiving anything in return. At the same time, our economic competitors have used their foreign aid programs to create new markets for their products. According to many estimates, the U.S.

loses \$2.4 to \$4.8 billion in exports each year to competitors who use foreign aid in export financing. As President Clinton said in May of last year, "The work that exporters * * * do to expand jobs and growth is fundamentally important, because every time we sell \$1 billion of American products and services overseas, we create about 20,000 jobs." This translates to a loss of 50,000 to 100,000 American jobs each year due to our current export assistance system.

I propose five important improvements in the new foreign assistance program that will ensure that we offer the right kind of foreign aid.

First, we must significantly reduce the amount of "no-strings-attached" cash that our Government hands out to other nations. We should assure that these funds be used to purchase American goods and services whenever possible. The Aid for Trade Act sets limits on the percentage of certain foreign assistance funds that can be handed out as cash transfers—that is, payments that are not used to purchase United States goods and services or to repay foreign debt owed to the U.S. Treasury. In the first year after enactment, no more than half of this foreign aid can be given as cash transfers. By the fifth year, cash transfers shrink to 30 percent.

Although the new foreign assistance bill creates different categories of foreign aid, similar limits must be included in the legislation. I suggest that specific limits on cash transfers be included in the section relating to AID programs to support broad-based economic growth. To ensure that this transformation actually occurs, AID should report to Congress annually on its compliance.

Second, we should place a greater emphasis on capital projects. Capital projects provide roads, phones, schools, power lines and other building blocks of development. These projects are the form of foreign assistance that provides the highest level of return to American businesses and workers. Until the early 1970's, AID correctly devoted a much larger percentage of its funds to capital projects. Currently, however, we spend a smaller proportion of our foreign aid budget on these infrastructure projects than any other OECD nation. OECD donors as a whole allocate about 24 percent of their aid for economic infrastructure, with Japan as the leader at 39 percent. The U.S., on the other hand, spends less than 8 percent on economic infrastructure, with a much greater emphasis on social programs and cash transfers.

The new foreign aid program, therefore, should require the United States to increase the percentage of our foreign aid spent on capital infrastructure projects to at least the OECD average at the same time we reduce cash transfers. I believe that the bill should contain provisions calling for a tripling of the percentage of foreign aid used for capital projects over the next 5 years.

Third, we should make the Trade and Development Agency a higher priority and fund it appropriately. TDA, along with OPIC, is proof that economic assistance and export assistance are not mutually exclusive. Since its inception, TDA has generated over \$5 billion in exports, involving over 1,000 US companies in 47 states plus the District of Columbia. In FY 1993, TDA was involved in more than 300 projects for 64 countries, in areas such as energy, transportation, water and the environment, manufacturing and telecommunications. For every dollar it has spent, TDA has generated an average of over \$25 in increased exports of US goods and services. That is a very impressive return.

TDA's FY 1994 budget is \$40 million. Let's compare that figure to what one of our competitors spends on feasibility studies. In 1991, Japan spent \$200 million on such studies—8 times as much as the US that year. In the FY 1995 budget, the President has proposed only a \$5 million increase for TDA. That, quite frankly, is insufficient. Last year I called for \$400 million to be transferred from AID to TDA. While that increase may be too large to occur in one year, legislation should require incremental increases so that TDA reaches a comparable funding level in the near future. For FY 1995, I believe that TDA should be funded at a minimum of \$80 million, doubling this year's budget. These extra funds can be found within the foreign aid program as we redirect money to ensure that foreign aid is appropriated in compliance with our new priorities.

Fourth, the Export-Import Bank should aggressively use the funds it receives as part of the foreign aid budget. For too long, Ex-Im used its war chest infrequently, allowing its funds to roll over from one year to the next. We must use all the tools available to us to promote American competitiveness overseas. The new capital projects fund, though it is quite small, offers the Bank the opportunity to take on a more proactive and less reactive role. Congress should also require periodic reports from Ex-Im on its use of this fund and the war chest.

Finally, the new bill should contain strong procurement requirements. I was encouraged by the procurement language already included in the administration's proposal. However, I think it should be extended. The Aid for Trade Act included very specific requirements that are necessary for a new foreign assistance program.

These requirements dealt with past problems in procurement practices relating to motor vehicles, construction and engineering services, and other areas in which U.S. taxpayer money had been used to purchase foreign goods. Even more importantly, we must make sure that these provisions are strictly enforced—in the past, they have been too easily ignored. The AID Administrator should be required to submit an annual report to Congress detailing procurement by the agency of US commodities and services and identifying weaknesses in the program.

My theme today is a simple one: whenever possible, American foreign aid dollars should be used to buy American goods and should not be used to benefit our competitors. By using foreign assistance to promote the broad objectives of American foreign policy, we have the greatest opportunity to create a broader and stronger constituency for foreign aid. At a time when both public and congressional support for the US foreign aid budget is shrinking, these proposals offer us the best opportunity for implementing the right kind of foreign aid—one that is consistent with our American interests.

Senator SARBANES. Thank you very much. Senator Lieberman.

STATEMENT OF HON. JOSEPH I. LIEBERMAN, U.S. SENATOR FROM CONNECTICUT

Senator LIEBERMAN. Thank you, Mr. Chairman.

I have a longer statement that I would ask be included in the record.

Senator SARBANES. It certainly shall be.

Senator LIEBERMAN. In the continuation of the good news, I have a shorter statement which I can abbreviate based on the statement of my friend and colleague for Oklahoma, Senator Boren, who has been a leader in this and has made several of the points that I wanted to make.

The basic first point is to thank you for taking the time to hold this hearing and focus on the whole concept of aid for trade; second to express my own satisfaction that the administration has included some of these aid for trade ideas in their Peace, Prosperity and Democracy Act.

The basic point is really equity, fairness, that the money we are putting out, to the extent that it makes any feasible sense, ought to be coming back to American business or being put out in a way that will create opportunities abroad for American business.

And second, in doing so, I think we will help to create a domestic constituency for foreign aid, which at this point in popularity runs slightly behind Tanya Harding, I would say.

We do not want to tie the President's hands with our proposals. We want to change the general rules of the game to reflect our goal of helping others while we also, in a reasonable way, help ourselves.

And while we do not want American businesses, obviously, running our foreign aid programs, we do want American businesses and the American people to benefit from those programs.

And it is those basic principles that led to the introduction of S. 722 with Senator Boren and Senators Baucus, Byrd and Roth, as well.

I would just add one point behind what Senator Boren said, and that is to urge that we look seriously to something that had been a special interest of mine, devoting more of our resources abroad to capital projects.

We spend significantly less of our resources, foreign aid resources, in this area of capital projects. We spend less than ten percent than any other OECD country.

And in this regard, I am troubled, I must say, that the administration's proposal repeals language in the Jobs Through Export Act of 1992, which established a capital projects office designed to increase funding for capital projects at AID. As far as I am concerned, that repeal would be a step in the wrong direction.

So finally, Mr. Chairman and Senator Kassebaum, my point is that we need to reform our foreign aid programs so that they are programs with support and value and home, as well as abroad. I hope that the committee will embrace and expand upon the administration's hard work in this important economic and diplomatic area. I thank you for your time and attention.

[The prepared statement of Senator Lieberman follows:]

PREPARED STATEMENT OF SENATOR JOSEPH I. LIEBERMAN

Mr. Chairman, and members of the Committee, I am delighted to be here today. I am grateful for the opportunity to talk about the need to incorporate the notion of Aid for Trade into the foreign aid debate as a way to both help our allies around the globe while at the same time maintaining a constituency for that aid at home. And I am grateful that the Committee has expressed an interest in looking at this issue as you begin to look at the administration's proposal to reform foreign aid—the Peace, Prosperity and Democracy Act of 1994.

As I think most of you will agree, reform of our foreign assistance programs is overdue. The last comprehensive overhaul was adopted over thirty years ago under the icy shadow of a very cold war. Thankfully, those days are gone. At the same time, we are facing new threats and new challenges. The administration is absolutely correct to press for an international aid program that reflects the changed nature of the needs we want to address and the interests we have around the world.

This Committee has worked to address these changes. I commend you for the time and the effort that you have devoted to these important issues and I congratulate you for moving so quickly to address the administration's proposals in this area.

I also want you to know that I know how tough your job is. Across this country, there may be more people who like foreign aid than like that skater from Oregon—but I would not risk betting on that fact. There has not been a foreign aid reauthorization for nearly ten years, and it is no secret that the unpopularity of foreign aid is at least part of the reason why.

My argument today in appearing before the Committee, is to make the pitch that Aid for Trade is a way to enhance our foreign aid program—a way to help other countries and to do so because it is in our long-term best interest. The proponents of Aid for Trade believe this can be done without hurting our ability to provide foreign aid. And, by creating a domestic constituency for foreign aid our ability to provide foreign aid may be enhanced. We also believe this can be done without tying the President's hands. We don't want to micromanage—we want to change the general rules of the game to reflect our true goal of helping others while we help ourselves. And while we don't want American businesses running our foreign aid programs, we do want American businesses and the American people to benefit from those programs.

A group of us have been working for a few years on the Aid for Trade issue. In 1991, I joined Senators Boren, Bentsen, Byrd, and Baucus in introducing an Aid for Trade Act which increased the share of foreign aid devoted to projects built with American goods and services and, proposed to reduce the amount of foreign aid in the form of no strings attached cash. I should also stress something very important, our legislation exempted humanitarian assistance from all of the above. Despite not having a last name that began with the letter B—you will recall that this group was known as the “killer bees and Lieberman”—I was allowed to participate fully in this group's effort to work on Aid for Trade legislation. And it was truly satisfying in 1991 when a revised version of this legislation passed the Senate in a 99-0 vote as an amendment to the foreign aid bill.

In 1993, we lost a B and gained an R. Senator Bentsen became Secretary Bentsen and Senator Roth agreed to cosponsor S. 722, the 1993 version of the Aid for Trade Act. Highlights of S. 722 include an expansion of the Trade and Development Agency (TDA), a reduction in cash transfers with some exceptions, and stricter guidelines in the Buy American regulations that apply to foreign aid.

It is with a great deal of pleasure that I note that the administration has taken some of these ideas to heart. They have demonstrated a clear understanding that

economic security here at home has a lot to do with our security abroad. The Trade Policy Coordinating Committee, led by Secretary Brown, issued a report in September of 1993 which stressed the need to create opportunities for U.S. exporters abroad. The opening pages of that report noted that "we must export to grow." Our Aid for Trade proposal is very much a way to create those export opportunities abroad while creating interest in the benefits of foreign aid here at home.

The administration's Peace, Prosperity and Democracy proposal makes clear that trade and export assistance are important foreign policy tools which should share equal billing with the bill's other priorities: sustainable development, building democracy, promoting peace, humanitarian assistance, and advancing diplomacy. I wholeheartedly support this move to help our allies abroad while promoting the economic interests we have in this country.

"Promoting Growth through Trade and Investment" is Title V of the administration's proposal. This title highlights the important role of a number of agencies which are key to a successful aid for trade strategy. I will not go into their value in great detail. However, I am encouraged that the administration has devoted attention to the roles of the Overseas Private Investment Corporation (OPIC), the Trade and Development Agency (TDA), and the Export-Import Bank (EXIM).

The procurement language in Title VIII of the administration's bill also comes as welcome news. This language is similar to language that was contained in the 1993 Aid for Trade Act which made clear that countries receiving foreign aid should be buying American. With very few exceptions, the administration's proposal stipulates that, "funds made available for programs under this act may be used by the President for procurement only in the United States, the recipient country, or developing countries."

While I am happy with these developments, I believe we can, and should, consider doing more. A case in point is TDA. The administration has rightly targeted the TDA budget for a \$5 million increase but there are those of us who believe that we should be increasing their budget more. TDA does excellent work in putting together studies to determine whether U.S. export projects are feasible yet in 1991 we spent \$35 million on these studies while Japan spent nearly six times that amount—\$200 million. I know these are difficult budget times and I am not proposing an overall increase in the foreign aid budget to increase funding for export promotion. What I am suggesting is that that Congress work with the administration to identify those areas that do the least to promote our foreign aid objectives and consider shifting aid to those areas, like TDA, which I believe do a tremendous amount to further our objectives.

We also need to look seriously at devoting more of our resources to capital projects. We spend less of our resources in this area—less than ten percent—than any other OECD country. A May, 1992 Coopers and Lybrand study estimates that Japan and Italy devote about 55 percent of their foreign aid budgets to capital assistance, Germany and the UK come in at about 35 percent of their foreign aid budgets and Canada and France, 20 percent. At less than 10 percent, the U.S. is woefully behind and we are not making a tremendous amount of progress in this area. In fact, a 1991 study by Fred Zobrist at AID found that spending on capital projects went from 19.7 percent of AID's budget in 1984 to a scant 6.6 percent of AID's budget in 1992. would also like to stress that, in talking about capital projects, I don't necessarily mean an enormous project, like a dam or an airport. Capital projects don't have to be on that scale. By way of illustration, a smaller project might be a renewable energy plant or a computer skills training facility.

I am particularly distressed that the administration's Peace, Prosperity and Democracy Act repeals Title III of the Jobs Through Exports Act of 1992. This title establishes a capital projects office, designed to increase funding for capital projects, at AID. As far as I am concerned, repealing the establishment of this office is a step in the wrong direction.

We need to reform our foreign aid programs so that they are programs with support and value at home as well as abroad. I hope that the Committee will embrace and expand upon the administration's hard work in this important economic and diplomatic area.

Senator SARBANES. Well, we thank both of you for some very helpful testimony. I have just a couple questions I want to put.

First of all, let me make a comment. I do think that the Export-Import Bank under Ken Brody is moving aggressively now on utilizing the war chest and trying to create a level playing field for American exporters.

Their position, as I understand it—and I support this—is that they do not initiate the favorable arrangements, because the most preferred position is that no country should be engaged in these practices, and therefore the competition ought to be between the companies simply on the basis of cost and quality, which is straight out, private competition.

But if other governments are going to weigh in on the side of their exporters with aid or favorable financing arrangements or whatever it may be in order to get the contract, that then the EXIM Bank and the U.S. ought to be there beside our exporters to keep the playing field level and assure that they will not lose the competition because of the intervention of the other government. I strongly support that approach.

I have a couple questions. Of course, a lot of the cash transfers are ESF assistance. Now, if a country is in fact spending in the U.S. the equivalent of a cash transfer or even in many instances in excess of it, would you still cut back on the cash transfer arrangement?

Senator BOREN. I think that could be counted as—as I mentioned, we have had an exemption for repayment of American loans. You know, there are several countries involved here in which we are making direct cash grants that immediately flow back to the United States in terms of repayment of loans.

I think the same thing could have a compensating balance here, if those are being actually spent in the United States. So you would not have to count that against the figure for reduction—

Senator SARBANES. Yes, because in some instances we make the cash transfer for other reasons.

Senator BOREN. Right.

Senator SARBANES. In the Middle East, for example, and the countries receiving the cash transfer, particularly the two countries, do in fact spend far more in the U.S.—

Senator BOREN. Yes.

Senator SARBANES [continuing]. For goods and services than the amount of the cash transfer. But that is how it is disbursed, and they get it away from project-related assistance.

Senator BOREN. Right.

Senator SARBANES. Now, I take it that is OK.

Senator BOREN. We are in agreement. That is OK. In fact, I am told that the way we define cash transfers in the bill would include not only repayment of debt but dollars spent in the United States.

So that would be credited against that figure but would not count against the amount of cash expenditures that would have to be reduced.

Senator LIEBERMAN. But I do think, Mr. Chairman, that we would want to make clear that the emphasis here is on encouraging where this money is going to be used to purchase, that the purchases be made, if at all possible, in America, that they buy American. The fact that engendered the original interest here was the case in Mozambique that Senator Boren referred to.

So I guess I would say that the funds spent here ought to be considered, but I do think that we ought not to open—the administration's proposal, I will read it, "Stipulates that funds made available for programs under this Act may be used by the President for pro-

curement only in the United States, the recipient country, or developing countries."

So it broadens it a bit, but I think we are trying to have the tilt here be on the use of this money in the U.S.

Senator SARBANES. Well, one of the largest recipients of cash transfers is the State of Israel, right?

Senator LIEBERMAN. Right.

Senator SARBANES. The State of Israel spends for U.S. goods and services amounts in excess of the cash transfers it receives from the U.S.

Senator LIEBERMAN. Yes.

Senator SARBANES. But that is not a tied arrangement, because for a lot of reasons it has been determined that the best way to work the program is to make the cash transfer. These purchases take place, as I said, in amounts far larger than the cash transfer, but there is not a direct linkage, as it were.

Now, I am just trying to get out of you, are we going to have to change that arrangement as you would propose it?

Senator LIEBERMAN. Well, the language in the administration's proposal tilts it a bit, and I think this requires a bit of legislative artistry here.

I think we are trying to avoid the worst situation, where a recipient country takes our money and, without any hesitation, spends it in a third country, a developed country, for instance, when really we want to put the emphasis on spending here. On the other hand, we do want to give some credit for the kinds of expenditures that you describe.

Senator BOREN. One of the things, I think, that would ease this situation is we are not here talking about a country-by-country cap.

In other words, the kind of cap we are talking about is a draw down of total cash outlays with no strings attached. Now, when you start from the very beginning and exempt money sent to another country for the purpose of repaying for foreign loans—and I suppose the country where that would have the largest impact would be the State of Israel—so you start in terms of exemption of that, quite a relatively large sum of money is exempt right off the bat, not counted as a cash transfer.

So when you are talking about bringing down cash transfers by 50 percent, you are not counting that even as a cash transfer. So that is set aside already.

So I think that you would not have had what we felt in looking at this, and that was one of our concerns when we first started looking at this two, three or four years ago in drafting to draft language, was that we not batten down that cap so low.

We still allowed 50 percent to go in cash transfers, not counting as a cash transfer money for repayment of loans. We felt we still had enough leeway in the rest of it, this pot of money that was not broken down into individual projects or by country, that you could still meet those goals, increasing your number of capital projects, for example, and that is one of the essential ways we shift this balance from cash to buying American products. Much of it is shifting more toward capital projects, quite frankly.

But I do not think it would have the effect of pinching on specific programs at an individual country, like Israel in this case, the example that you gave.

Senator SARBANES. All right. We will look at that very carefully. Senator Kassebaum.

Senator KASSEBAUM. Just a couple of things, and I appreciate the testimony. I know this has been an interest for some time, and I think we all would like to make sure—without making too definite in language—that the general purpose are the thrust and the direction of our program.

You know, in the 1960's infrastructure was a major emphasis. At the time, many felt there had been a number of white elephants, so to speak, that had emerged through these types of programs.

Do you have any way of suggesting how that might be avoided?

Senator BOREN. I think that in many cases what is happening—there were some white elephants, undoubtedly. And I think when we thought of capital projects, we thought of huge capital projects at that time.

What we are seeing now is that many countries are coming to us. I know when I was in Poland a few years ago, they were talking to us about wanting to computerize the Polish banking system and how could they get assistance in doing that. That is a capital project, and they wanted to do it.

It was not something we came to them and said, "You should computerize your banking system."

They said, "We are going to computerize our banking system. We would like to have help."

Obviously, my hope would be that instead of giving cash, which I think we did to some degree, we would provide them cash to buy our computer equipment, so that they would not go and take our money for a project they are going to carry out anywhere and buy, say, German or Japanese or French computer equipment.

I think by concentrating on smaller scale projects, and a lot of it has to do with technology, you are still meeting a very direct social need in many cases.

One of the projects that TDA has looked at in the past has to do with telecommunications on medical testing, something we are very familiar with in the United States, especially in rural areas where you can, by telephone line, send that cardiogram to a specialist someplace else, for example.

Instead of having to move people around for medical treatment or testing, you are able to do that long distance by simply providing, in some cases, relatively low cost equipment to rural areas. That is particularly, I think, needed in many parts of Africa, for example.

So you can put American medical equipment in there to improve medical care, which we in many ways have thought of as a social service. But in essence, it is a capital project.

So I think in many ways we have changed our concept away from like building one huge hydroelectric dam or something like that to other kinds of projects that involve American equipment and technology that are indeed capital projects, but they are very often related directly to social needs, as well as economic development.

Senator SARBANES. Would you address, though, on that point the fact there is a body of opinion—and we get testimony about it here and some lobbying on behalf of it—that says a lot of our aid program ought to be addressed to human needs, health, population, education, microenterprises, et cetera, none of which are a capital project?

Senator BOREN. Well, I think some of them, just as in the example I just gave, there are certain kinds of medical equipment, for example, that are very much social need oriented or social program oriented, so that you use technology to deliver medical services more cost effectively and to more people, say out in the bush someplace. There are projects like that that can be undertaken.

I do not think we should go to other countries and try to push them into projects that they do not want, but I think if they are asking us for those projects, that it is far better for us to try to move by developing them rather than by giving them cash.

I guess I would just say I think there is a reasonable balance here between what we do and what other countries do. I gave the statistic that Japan used 39 percent of their total aid in these kinds of projects; we use 8 percent. OECD averages—

Senator SARBANES. No, no. I am not talking about giving them a cash transfer.

Suppose we are putting the money out and we say, "We are putting this amount of money for health programs, this amount of money for population programs."

And let us assume none of those meet your capital standard. Then applying the capital standard, would you have us shift money out of the health and population and other similar programs, basic training programs, and so forth?

Senator BOREN. We potentially could, but I think in some ways, not necessary so. Because if these are projects that countries are going to undertake anyway with their own resources—let us say like computerizing the banking system in Poland—they are going to undertake that.

It is not something we are pushing at them, and if we do not provide the resources, they are going to use their own resources to do it. They are really in some ways, I think, changing fungible money around so they can undertake those projects.

I simply feel that to maintain the level of support from the American public, that—we are not saying to do that with all social programs by any respect, but I think we need to have a more appropriate balance in which Americans can also feel that we are helping meet a need that is perceived in that country anyway, that they are going to undertake anyway, but we are doing it in a way that will create jobs here.

Senator LIEBERMAN. Yes. I would add that this is a question of balance. To answer your question, which is a tough one, I say we do come to a point where we have to say: well, we have funded it.

We obviously should continue to fund health and human social need programs, and the administration's proposals clearly do that.

But at some point you have to say, "Well, now we have to stop. Now we have to go on and do other kinds of funding, including capital projects," which, incidentally, are, if properly done, critically im-

portant to the well-being to the people in the country because they often mean jobs and a higher standard of living.

Let me just read some numbers for you briefly from a Coopers and Lybrand study of May 1992 on this whole question of capital projects. We come in at less than 10 percent.

This Coopers and Lybrand study showed that Japan and Italy devote about 55 percent of their foreign aid budgets to capital assistance, Germany and the United Kingdom come in at about 35 percent of their foreign aid budgets, and Canada and France at 20 percent. So at slightly less than 10 percent, we are way behind.

The other part of this, I think in terms of the interest of American business is that, particularly in the case of the kinds of high tech capital projects which Senator Boren has referred to and which tend to be the interest of recipient nations these days, once American business gets into the infrastructure of the country in that way, there is then opportunity for additional business in supplies and maintenance and all the rest.

We find this very dramatically in Eastern Europe, of course, in the newly independent states where there is a great competition to do the initial setup of a telecommunications network or a computer network with the understanding that that makes it much more probable that support of equipment and maintenance of parts will all be coming from American companies.

Senator BOREN. I might mention, Mr. Chairman, just on the point you made, in our original bill we tried to get at this problem that you are talking about and not putting undue pressure on what we would call humanitarian assistance.

It is true we put some pressure on it by moving more to capital projects, but we do say, as far as the cap in cash transfers, getting down that no more than a certain amount could go in cash transfers without strings attached, we do exempt cash transfers that are strictly for the purpose of humanitarian relief.

We have put the cap on cash transfers for economic development programs. So we do try to draw that distinction. We do not cap the amount of cash transfer for humanitarian programs; we cap the amount of cash transfers for economic development programs.

So the cap is perhaps not as onerous because, one, we exempt cash that goes for the repayment of American loans and, two, we exempt cash that is going for direct humanitarian relief. We really leave the cap mechanism primarily in place for economic development programs.

But it is true that there is some pressure undoubtedly because of this push to put more into what we have defined as capital projects.

Senator KASSEBAUM. I would only add, Mr. Chairman, because I think both Senator Boren, you and Senator Lieberman, have brought out some very valid points.

And I think particularly when you go back to the 1960's maybe and as we view today, one thing that we have not been very innovative in doing is follow through.

When you talk about whatever capital project you might be involved in, say the one with the banking, the computerization of the system, in Poland, it is also then being there to help train those who are working in the banks in Poland, the services of that equip-

ment by those there, so that when there is a need for additional equipment, there are those there who know and have become used to that equipment, that they will look to further purchases here.

I think other countries have done this, particularly Japan, very well, and we have not ever spent the time to follow through. And I think that is an important component today.

Senator LIEBERMAN. This is really quite similar to the point that the chairman made about the EXIM Bank financing. I mean, it is some measure here without going too far that we are trying to level the playing field in foreign aid and the uses to which other developed nations have put it to assist their business.

Senator SARBANES. Well, the computerized banking system in Poland is an easy example, and I agree with you at the table.

What is a more difficult problem is a highly underdeveloped country in Africa. Now it is true that even there, when the Japanese come in, they usually come in to do a capital project.

But there are lots of development experts and people involved who say, "Look, this is not what these countries really need."

And there was in fact a push in this country to shift our policy focus in that sort of country toward a lot of these human development programs, which would not meet your criteria, but which some argue are really what the country needs if it is to start moving up the economic development ladder.

And that is the sort of question I am addressing. I mean, there is no gap between us on computerizing the Polish banking system and getting American computers in to do that, obviously.

But I do think we need to think through this other problem a little bit. I think Senator Humphrey actually took the lead in this committee in shifting that focus in those underdeveloped countries toward the human development side, and we need to look at that, I think.

Senator BOREN. I do not disagree at all with what you said. It is a matter of striking a balance, and I guess what we are saying is we think, whereas before we perhaps tilted particularly toward a few large projects—and by the way, that is something else that TDA has been very good at doing and I think OPIC and EXIM are trying very hard to make this effort.

We do not just do a few huge projects that only a few very large companies can do. That is something else that I think is necessary to focus on.

TDA, for example, is providing a lot of technical assistance to very small American companies that probably would just not have a chance to participate in overseas projects without it.

And by going in for smaller, if you want to call them smaller, capital projects, many of them involving smaller companies, I think we are avoiding some of the mistakes of the past.

But I agree with you, and I would not suggest we should go completely back perhaps even as far as our competing countries are going.

But what we are saying here is that I think there is a balance that needs to be struck, and perhaps we have gone too far in tilting the balance, especially in economic development projects without being careful enough sometimes of making sure that we do create jobs here to the maximum degree possible.

Senator SARBANES. Well, thank you all very much. You have been very helpful.

If our panel would now come forward. [Pause.]

We will have discussion and commentary on the issue of Aid and Trade.

First, we have Dr. Margee Ensign, Director of Development Studies at the Institute for International Research and author of a book entitled, "Doing Good or Doing Well, Japan's Foreign Aid Program."

Representing the AFL-CIO will be Mr. Phillip Fishman, assistant director for International Affairs; Mr. Richard O'Leary, the chairman of the U.S. Chamber of Commerce's Subcommittee on Export Financing, testifying for the Chamber; and then Mr. John Hardy, currently the director of Corporate Development and Finance at Brown and Root, and formerly deputy director of the Trade and Development Program, who will represent the Coalition for Employment through Exports, which encompasses a broad range of labor and industry groups, and which I might mention—along with the Chamber and the AFL-CIO, was very much involved in the development of the Export Promotion Act a couple of years ago and the Trade Promotion Coordinating Council and the whole requirement of a strategic export policy.

We will include your full statements in the record. If you could abbreviate them, we would be happy to hear from you.

I think, Dr. Ensign, we will begin with you and then just move right across the panel, please.

STATEMENT OF DR. MARGEE ENSIGN, DIRECTOR, DEVELOPMENT STUDIES PROGRAM AT TULANE UNIVERSITY

Dr. ENSIGN. Thank you, Mr. Chairman, Senator Kassebaum.

In the years following World War II, American foreign aid sprung from a broad-based vision that eventually resulted in unprecedented growth and human welfare, especially in the developing world.

Triumphs over infant mortality, growth in incomes, life expectancy, and primary education were greater between 1950 and 1970 than any previous period in history.

The liberal international order that shaped this vision and which was expressed in the Bretton Woods institutions operated on a premise that is no less significant for today: the assumption that economic cooperation and mutual development are in everyone's national interest. Certainly the U.S. foreign aid program has reflected that vision.

The Marshall Plan, launched in 1947, reflected that vision. All of our contemporary goals for foreign assistance were present at the outset: development to rebuild societies and support democracy, humanitarian assistance to alleviate suffering and starvation in Europe in the winters of 1947 and 1948; Commercial: Much of the assistance was used to buy American goods and security, responding to the threat of communism.

Now, as our political motives for supporting foreign aid shift from considerations of security to more specifically economic goals, these traditional tenets of U.S. aid are being reexamined.

Mr. Chairman, the purpose of my testimony here today is to say that the broader vision has produced superior results, and that a narrower commercial approach to foreign aid bears very little fruit that holds up under close scrutiny, that supporting long-term development in the developing world has been much more effective in promoting U.S. economic security and U.S. exports than the simply tying of assistance or capital projects could ever have been.

There is no question that supporting and encouraging U.S. business abroad is essential, both for our economic prosperity as well as for global prosperity. However, export-based aid is both unproductive and shortsighted.

Why? It has not worked for the United States. United States experience with capital projects in the 1960's did not lead to the intended objective of a sustained increase in U.S. exports.

A recent study that examined American supplies from this period show that only nine percent of American suppliers received follow-on sales of exports.

Second, it short circuits the assistance and foster inappropriate technology. From the recipient's perspective, the arguments are well known.

The empirical evidence shows that tied assistance reduces the overall value of the aid and may result in the transfer of inappropriate technology. It also diverts funds from other development projects, something you just addressed.

It fails to address the real issues affecting U.S. growth and productivity. The predictors of a country's competitiveness are supportive education and training, support for research and development, and a modern infrastructure, including telecommunications and transportation.

These are the areas where U.S. Government policy could have a major impact on increasing and improving U.S. competitiveness in the world. It is anticompetitive and undermines U.S. trade policy.

Our trade policy is a commitment to that premise that the U.S. and the world benefit from a liberal open trading regime. Recent agreements on the GATT and NAFTA reaffirm this commitment.

It is important to sustain momentum toward open trade and open aid, especially with the Japanese. The United States has for a number of years pressed for openness in the reduction of tied aid among all OECD countries.

Following the recent airing of closed procurement practices in its foreign aid program in my book, Japan has made some new strides in separating aid from exports.

This is not the time for the United States to send mixed signals or to create opportunities for Japanese retrenchment on this subject. Rather, it is the time to strengthen and implement the tied aid guidelines agreed to by the OECD countries in 1991.

Further, tying U.S. aid now could slow export-led growth. The United States economy has rebounded from the low growth rates of the 1980's, and U.S. industries have regained their competitive advantage in many sectors.

In fact, U.S. exports grew by over 20 percent in the fourth quarter of 1993. This is due in great part because the United States has encouraged an open trading system. This has obviously paid off.

Export-based aid could in fact hurt this new growth pattern by encouraging other countries to tie their assistance, thus reducing the amount of global trade.

It makes much more sense to encourage open procurement so that recipient countries can choose the most competitive products, which are increasingly, once again, U.S. goods and services.

An open trade policy and aid policy is based on the recognition that a rising world economy supports all nations. The most productive aid program meets the interests of both donors and recipients.

Based on this analysis, U.S. assistance should not be increasingly tied to American exports. This does not mean that support for U.S. exports should not be strong or proactive, but it is most effective in a different arena. U.S. Government policy could assist U.S. industry in a number of ways, in particular by improving the information available to industries about developing country markets.

As the GAO has outlined, ten different Federal agencies provide export promotion services for American businesses. There is a great deal of overlap in these programs.

As the GAO notes, U.S. export promotion funds are not currently allocated according to a government-wide strategy based on a set of national priorities. The Trade Promotion Coordinating Committee discussed by Joan Spero goes a long way in this direction.

Title 5 of the new foreign aid legislation recognizes that "the twin tracks of commercial engagement and longer term sustainable development represents complimentary means of advancing U.S. interests. It maintains the buy America requirements and authorizes OPIC and TDA."

I think the administration's policy framework for trade an investment, which is reflected in the new foreign assistance legislation is appropriate. It recognizes that AID's role in comparative advantage is not in direct export promotion.

The legislation also recognizes that U.S. economic and political interests are best served by supporting sustainable growth and development. AID is the only agency in the government that can do this type of export promotion, which is long run, sustainable, and requires an on-the-ground presence.

Finally, it is important to note that today's growing U.S. customers for U.S. goods and services were yesterday's traditional aid recipients. This is not abstraction.

Developing country markets are the fastest growing markets for U.S. goods today, particularly those with high, real GDP growth rates.

It is a fact that U.S. foreign assistance played a major role in the long-term growth and development of several of these lucrative markets, Korea, Taiwan, and Thailand.

But others, including China, Hong Kong and Malaysia also pursued development patterns known in the field as virtuous circles of broad-based growth and development, which offer, very briefly, important lessons for how AID should be targeted.

First, it is the economy, stupid. Just as the Clinton administration has emphasized the importance of a healthy growing U.S. economy, we can point to a corollary in the developing world.

One of the determinants of growth and development, and thus the capacity to import, is economic growth. East Asian countries have exhibited that.

The type of growth matters. These countries in general have promoted economic growth strategies that are inequity based and have led to reductions in equality in these societies.

All of these societies have emphasized education, particularly for women, health care and population reductions. These appear to be critical elements of a development strategy and should continue to be priorities in the U.S. aid program.

Finally, instead of reorienting the U.S. aid program toward a commercial one, it is imperative that the U.S. retain the intellectual leadership in foreign aid and the global vision that helped to shape the international order after World War II.

We must also recognize that the final frontier and development is sub-Saharan Africa. Real per capita income in sub-Saharan Africa is close to what existed in 1960.

African countries have some of the lowest levels of life expectancy, of access to education and health care and the highest levels of infant mortality and HIV prevalence in the world.

Focusing on problems of Africa should be among the highest in priority for the U.S. aid program. This would not happen if USAID pursues a capital-intensive aid program. Middle income developing countries, rather than the poorer developing countries, are the major beneficiaries of infrastructure assistance.

Thank you, Mr. Chairman.

[The prepared statement of Dr. Ensign follows:]

PREPARED STATEMENT OF DR. MARCEE M. ENSIGN

U.S. FOREIGN ASSISTANCE IN THE 1990's: THE MERITS AND MYTHS OF EXPORT PROMOTION

Mr. Chairman, Members of the Committee: In the years following World War II, American policymakers helped to shape a vision of that post-war world that resulted in unprecedented improvements in human welfare. In the developing countries, increases in income levels, life expectancy and in primary and secondary education and declines in infant mortality were greater in the period from 1950 to 1970 than in any previous period in history.¹

The liberal international order that shaped this vision and which was expressed in the Bretton Woods institutions operated on a premise that is no less significant for today: the assumption that economic cooperation and mutual development are in everyone's interest. The U.S. foreign aid program also reflected this vision.

The Marshall Plan, launched in 1947, was the largest foreign aid program ever conceived. The main goals of this program were to rehabilitate the war-torn economies of Europe, to alleviate human suffering, and to bolster the political and economic strength of the continent. Much of the assistance, \$13.2 billion in 1948 dollars, was used to buy U.S. goods. Support for this program gained speed in the Congress as the threat of Communism heated up across Europe. All of the rationales for the U.S. foreign assistance program from the 1950's to the present were embodied in the Marshall Plan-development: (rebuilding societies and supporting democracy); **humanitarian**: (alleviating hunger and starvation in Europe in the winters of 1947 and 1948); **commercial**: (much of the assistance was used to buy American goods); and **security**: (responding to the threat of Communism). All of these rationales persisted from the 1950's to the present even as the geographic focus of the U.S. assistance program changed from Europe to the developing world and our knowledge about the development process improved, (see Table 1).

¹ See Michael Rock, "Twenty-five Years of Economic Development Revisited," *World Development*, 21 (11), 1993, pp. 1787-1801.

TABLE I.—DEVELOPMENT IDEAS AND U.S. AID RATIONALES—1950–1990

	Ideas	Rationales
1950's	Reconstruction of Europe Establishment of Bretton Woods System Containment	Humanitarian, Development, Commercial Development, Security Security
1960's	Stages: Growth-Stability State-led Growth ISI-Import Substitution Industrialization	Development, Humanitarian, Security Development Development, Security
1970's	Basic Needs NIEO-New International Economic Order	Humanitarian, Development
1980's	Policy Reform Export-Led Growth Democracy	Development, Security, Humanitarian Development, Security Development, Security
1990's	Broad-Based & Sustainable Development Growth, Democracy, Environment, Population	Economic Security Human Development

While all of these goals formed the basis of the program as it evolved over time, U.S. foreign aid has unfortunately been narrowly represented to the American people in the last forty years as a defense against communism. With the end of the cold war, there are those who argue that the dominant rationale for the U.S. aid program has disappeared and therefore the U.S. aid program should narrow its focus to a commercial one—supporting U.S. exports.

As the world awoke after forty years dominated by a communist threat, the world that has emerged is fundamentally different from that of the late 1940's. The U.S. faces a new set of domestic and international challenges, many of which are economic in nature.

In the interdependent world that confronts all countries in the 1990's, economic security is a critical component of national security. With security threats diminishing somewhat, at least for the present time, economic strength has become as important as military might. In the United States, exports have become an increasingly important part of an emerging economic security strategy. Export growth has fueled our economic recovery in the past few years. From 1986 through 1990, almost 40 percent of the growth in U.S. GDP was due to increases in U.S. exports and in 1990 accounted for almost 75 percent of GDP growth. However, exports account for only 7.1 percent of total GDP. As our economy becomes more outward-oriented, exports will become an even more important source of dynamic growth in the future. For that to happen, however, it is critical that world markets remain open and growing.

There is no question that supporting and encouraging U.S. business abroad is essential both for U.S. prosperity as well as for global prosperity.

However, export-based aid is both short-sighted and unproductive:

U.S. INTERESTS

- Has not worked
- Fails to address the real factors that affect productivity
- Is anticompetitive and undermines U.S. trade policy

BENEFICIARY INTERESTS

- Decreases value of assistance
- May lead to transfer of inappropriate technology
- Diverts funds from other development priorities

IT HAS NOT WORKED FOR THE UNITED STATES

U.S. experience with the capital projects program of the 1960's did not lead to the intended objective of a sustained increase in U.S. exports.

The primary means for tying foreign assistance to exports has been the U.S. capital projects program. Most USAID capital projects have the "Buy America" provisions where procurement is tied to U.S. suppliers. The benefits to U.S. suppliers are automatic; a project of \$20 million generates contracts for \$20 million in the U.S. These are known as the first round effects. What is more interesting and important are second round effects: whether capital projects generate follow-on sales after the USAID funding ends. Until recently, there has been little empirical data on these secondary effects. A recent study² that examined 44 American suppliers from this period showed that only 9 percent of American suppliers received follow-on sales of exports.

For 19 of the firms, the contract provided a new entry into the market. However, for 13 of the firms this was the only business ever conducted in the beneficiary country. Only four of these obtained follow-on business after the contract. While this sample is very small, it provides some important evidence that this type of arrangement does not automatically lead to follow-on exports, the goal of the program.

A larger study of eighty infrastructure projects undertaken by USAID during the 1950's and 1960's further illustrates the problems associated with these projects:

- 17 percent of the projects did not meet their targets or objectives;
- 27 percent were poorly or inadequately managed;
- An additional 34 percent were poorly or inappropriately designed or planned;
- 18 percent had insufficient technical assistance and training;
- 12 percent benefited the target beneficiaries;
- 5 percent were considered to be well-designed;
- Only 6 percent were identified as having improved the physical quality of life of the beneficiaries; and
- Only 10 percent increased private sector involvement and a further 12.5 percent spurred other investment.³

FAILS TO ADDRESS THE REAL ISSUES AFFECTING U.S. GROWTH AND PRODUCTIVITY

The predictors of a country's competitiveness are support of education and training, support for research and development, (particularly that focused on industry) and a modern infrastructure, including telecommunications and transportation.⁴ These are the areas where U.S. Government policy could have a major impact on increasing and improving U.S. competitiveness in the world.

ANTI-COMPETITIVE AND UNDERMINES U.S. TRADE POLICY

Even with this evidence, does it not make sense in 1994 to tie aid to exports—particularly since other donors, specifically the Japanese have followed this process with success?⁵ How would such a decision relate to current U.S. trade policy? U.S. trade policy has been based on the premise that the U.S. and the world benefits from a liberal, open trading regime. Recent agreements on the GATT and NAFTA reiterated this support. Currently, the Clinton administration is pressing Japan to move away from restrictive trade practices and to open its domestic economy more to foreign trade and investment.

In the aid area in particular, the U.S. has for a number of years in the OECD been a strong supporter of reducing tied aid. As many Japanese officials interviewed for my book on Japanese assistance point out, it is somewhat hypocritical and inconsistent to press for more open procurement in the aid area while the U.S. program may be reversing itself. Moreover, recent evidence on the Japanese side shows that their aid program, after a period of being more tied than their official statistics indicated has made strides in delinking aid and Japanese exports. What is more important is to support the implementation and strengthening of the new tied-aid guidelines that were agreed to by the OECD countries in 1991, with strong support from the U.S. There are problems with this agreement and it is important to strengthen the implementation and enforcement of the guidelines—which would then move all donors away from tied aid practices rather than going in the opposite direction—increasing the proportion of U.S. aid which is tied. It would be a sad irony if the U.S. effort to promote untied aid were to capitulate the strategy itself.

²Draft Report, "Using Capital Projects to Promote Development and U.S. Commercial Interests," M. Ensign, J. Lieberman, M. McGovern, R. Muscat and J. Stallings. Prepared for the Office of Evaluation, CDIE, November 1993.

³See Margee Ensign, *Doing Good or Doing Well: Japan's Foreign Aid Program*, New York: Columbia University Press, 1992, p. 107.

⁴See Michael Porter, *The Competitive Advantage of Nations*, New York: The Free Press, 1990.

⁵See Ensign, pp. 49-79; 181-184.

Perhaps more importantly, the U.S. economy has rebounded from the low growth rates of the 1980's and U.S. industries have regained their competitive advantage in many sectors. In fact US exports grew by over 20 percent in the fourth quarter of 1993. This is due in great part because the U.S. has encouraged an open trading system. This has obviously paid off. Tied aid is protectionist and has never fostered efficiency or competitiveness in the long term. Tying assistance could in fact hurt this new growth pattern by encouraging other countries to tie their assistance thus reducing the amount of global trade. It makes more sense to encourage open procurement so that recipient countries can choose the most competitive products—which are increasingly once again U.S. goods and services. If tied aid increases, a question we then need to ask ourselves is whether it is effective to have trade and aid policies working at cross-purposes.

Finally, the benefits of tying U.S. assistance compared to the costs in terms of development and U.S. intellectual leadership in foreign aid are minuscule: even if all U.S. assistance was tied this would "amount to only 1 percent of annual U.S. exports and one-tenth of one percent of the U.S. gross domestic product."⁶ An open trade policy is based on the recognition that a rising world economy supports all nations. The most productive aid program meets the interests of both donors and beneficiaries.

REDUCES VALUE OF ASSISTANCE AND MAY RESULT IN INAPPROPRIATE TRANSFER OF TECHNOLOGY

From the beneficiary's perspective, the empirical evidence shows that tied assistance reduces the overall value of the aid and may result in the transfer of inappropriate technology. Although difficult to measure, one study has estimated that tied-aid increases costs by 20 to 30 percent.⁷ Excessive prices are only one of the potential costs of tied aid for recipient countries. If it reduces the recipients' choice in determining development projects, it may lessen the opportunity for projects most advantageous to the recipients. Other indirect costs include a bias against projects and programs with low import content such as rural development projects and a preference accorded to projects that require major imports in areas of particular export interest to the donor.

An additional problem of tied assistance is that once projects are funded there is often little money available for maintenance. The Philippines's General Hospital is an example of this problem. Completed in 1989, this hospital contains state-of-the-art equipment acquired from Japan. Unfortunately, parts for repairing equipment must also come from Japan, and funds are unavailable for required maintenance costs.⁸

From a development perspective, reorienting the U.S. foreign assistance program by linking aid to exports of capital goods would unquestionably hurt the poorer developing countries. Capital assistance goes primarily to the middle and upper income developing countries, many of which could begin to rely on commercial financing. Finally, capital assistance also, as the name implies, is capital intensive and may not take advantage of the relative abundance of labor found in most LDCs, thus limiting any possible employment-generating effects of the assistance.

SUPPORTING U.S. EXPORTS

Based on this analysis, U.S. assistance should not be increasingly tied to America's exports. This does not mean that support for U.S. exports should not be strong or proactive. But it is most effective in a different arena. U.S. Government policy could assist U.S. industry in a number of ways, in particular by improving the information about developing country markets to U.S. industries. As the GAO has outlined, 10 different federal agencies provide export promotion services for American businesses. There is a great deal of overlap in these programs. The GAO notes, "U.S. export promotion funds are not currently allocated according to a government-wide strategy based on a set of national priorities. As a result, U.S. export promotion efforts are diluted because they are spread among separate programs with separate budgets in separate agencies."⁹ It would be more efficient and potentially have more of an impact if these programs were centralized and a set of national priorities established to guide the promotion of exports.

⁶ United States General Accounting Office, "Accuracy of AID Statistics on Dollars Flowing Back to the U.S. Economy is Doubtful," August 1993, p.2.

⁷ See Catrinus Jepma, *The Tying of Aid*, Development Centre, OECD, 1991.

⁸ See Ensign, 1992, pp. 83-93.

⁹ U.S. General Accounting Office, "Export Promotion: A Comparison of Programs in Five Industrialized Nations," 1992, p. 11.

Title V of the new foreign aid legislation recognizes that the "twin tracks of commercial engagement and longer-term sustainable development represent complementary means of advancing United States interests" and maintains the Buy America requirements and authorizes OPIC and TDA. I think the administration's policy framework for trade and investment which is reflected in the new foreign assistance legislation is appropriate. It recognizes that AID's role and comparative advantage is not in direct export promotion. The legislation also recognizes that U.S. economic and political interests are best served by supporting sustainable growth and development. AID is the only agency in the government that can do this type of "export promotion" which is long run, sustainable and requires a field presence. I further believe that before OPIC and IDA receive additional funding, a comprehensive, integrated, government-wide strategy should be developed to ensure that existing shorter-term export promotion programs are meeting the real needs of American business.

TODAY'S GROWING U.S. CUSTOMERS WERE YESTERDAY'S TRADITIONAL AID RECIPIENTS

Finally, it is critically important to note that developing country markets are the fastest growing markets for U.S. goods. Between 1990 and 1991 exports grew by 15.6 percent while growth in U.S. exports to industrial countries during that period was only 2.9 percent. U.S. exports to the developing world in general have increased quite significantly from the mid 1980's to the early 1990's. Developing country markets, which were 35.4 percent of total U.S. exports in 1987, had rebounded to 37.8 percent by 1991. In 1991 the largest share of exports to the developing world went to Asia, with 42.3 percent of exports to the developing world going to this region. As Table II shows, it is not coincidental that real GDP per capita growth rates per year were highest in East Asian countries.

TABLE II.—REAL GDP PER CAPITA GROWTH RATE

[Percent per annum]

Region	1965-1980	1980-1990
East Asia	5.1	6.2
Latin America & Caribbean	3.5	-0.5
Sub-Saharan Africa	1.5	-1.0

Source: World Bank, *World Development Report 1992*, pp. 220-221, 268-269.

Within the East Asian category, U.S. exports increased fastest to China, Korea, Hong Kong, Malaysia, Singapore and Thailand. Moreover, it is interesting to note that for all of these Asian countries with the exception of Hong Kong, Japan was the top aid donor from 1988-91. Clearly, the U.S. benefits even if Japan's aid in those countries is tied. Some important lessons can be drawn from the types of growth and development patterns pursued by these countries that show how U.S. foreign assistance might best be targeted.

LESSONS

(1) *It's the economy, stupid.*—Just as the Clinton administration has emphasized the importance of a healthy growing U.S. economy, we can point to a corollary in the developing world. One of the determinants of development, and thus the capacity to import, is economic growth. East Asian developing countries have registered some of the highest growth rates in the world in the past decade. All have relatively stable macroeconomic policy and high levels of savings and investment. This points to the importance of continuing to support the policy reform efforts in the developing world.

(2) *The type of growth matters.*—These countries in general have promoted economic growth strategies that are equitably-based and have led to reductions in inequality in these societies. Improving access to credit, reform of agricultural policies, and perhaps most importantly, making education available to all led to rapid improvements in human development which then contributed a great deal to the growth story in these countries.

(3) *All of these societies have emphasized education-particularly for women, health care and population reductions.*—These appear to be critical elements of a development strategy and should continue to be priorities in a U.S. aid program.

In combination, these policies produce what has been called a virtuous circle¹⁰ of broad-based growth and development and offer some lessons for targeting foreign assistance. Moreover, in several of these countries—Korea, Taiwan and Thailand—it is important to remember that U.S. foreign assistance played a major role in supporting the growth and development process that is now well underway.

Table II above illustrates the increasing divide in the developing world: many of the East Asian countries have “graduated” from the developing country category. Some in Latin America are now back on the path of growth and development. The clear losers in the developing world are the sub-Saharan African countries—many of which fell behind or stagnated during the 1980’s. It is sub-Saharan Africa that is the final frontier in development. Real per capita income in sub-Saharan Africa is close to what existed in 1960. It has some of the lowest levels of life expectancy, of access to education and health care and the highest levels of infant mortality and HP, prevalence in the world. Focusing on problems of Africa should be among the highest in priority for the U.S. aid program. This would not happen if USAID pursues a capital intensive aid program. Middle income developing countries, rather than the poorer developing countries are the major beneficiaries of infrastructure assistance.

Instead of reorienting the U.S. aid program toward a commercial one, it is imperative that the U.S. retain the intellectual leadership in foreign aid and the global vision that helped to shape the international order after World War II.

The definition of U.S. national interest has changed from one based almost entirely on strategic and political concerns to one increasingly based on economic interests. It is in our economic as well as political interest, just as it was in the post-World War II period, that the rest of the world have sufficient income to buy their own and our goods. It is in our interest from a global perspective that we contain and reduce environmental degradation and that population growth be reduced. It is in our interest as human beings and as citizens of a great and wealthy nation that people not live in the poverty that is endemic in the developing world. A recent World Bank report documents the extent of that poverty: more than one billion people are living on less than \$1 per day.

The challenges remaining for the developing world are immense. It is ironic to note that in 1994 we may have come a long way in finally knowing how to “do development” at a time when real resources for development assistance are declining. The consensus, however, about what comprises broad-based and sustainable development is reflected in the administration’s new strategies for development. Our knowledge about the development process has evolved dramatically from the last post-war period. What must remain beyond question is our willingness to retain the global vision necessary for development to proceed, to retain the assumption that development is in everyone’s interest rather than retreating to short-term and inevitably flawed calculations of U.S. national interest.

Senator SARBANES. Thank you very much. Mr. Fishman.

STATEMENT OF PHILLIP FISHMAN, ASSISTANT DIRECTOR FOR INTERNATIONAL AFFAIRS, AFL-CIO

Mr. FISHMAN. Mr. Chairman and members of the subcommittee, on behalf of the AFL-CIO, I thank you for the opportunity to share our view on U.S. foreign assistance, trade and investment.

As you requested, Mr. Chairman, I will briefly summarize the remarks that were presented in our written statement.

As veterans of the battle over NAFTA, I assume that all of you have heard something about the AFL-CIO’s qualms over aspects of America’s international and investment policies.

And despite our opponents’ attempts to character our opposition to NAFTA as isolationists, protectionists, or both, I also assume that many of you know that the American labor movement has a long history as one of the most internationalist forces in our country.

¹⁰ See N. Birdsall and R. Sabot, “Virtuous Circles: Human Capital Growth and Equity in East Asia,” Background paper for *The East Asian Miracle*, (Washington, D.C.: World Bank, 1993).

The AFL-CIO's role in the NAFTA debate was a demonstration of our deep conviction that workers' rights must become an integral part of the U.S. foreign, trade, aid and investment policies.

It is a conviction grounded in the same principles that have always guided the AFL-CIO, a belief that workers everywhere have a right to life, liberty and a fair share for their labors.

This is why, after World War I, AFL President Samuel Gompers conceived of and helped to establish the international labor organization; why, after World War II the American labor movement provided critical support for the launching the Marshall Plan; and why, through the cold war, American workers always supported a strong national defense and an active U.S. aid and trade program.

With the end of the East-West divide, we do not advocate the pull back from foreign entanglements, but rather that the nation move forward in its effort to promote peace, prosperity and democracy around the world.

For us, these goals are inseparable, one from another, as is their pursuit from our struggle to defend the liberties and living standards of Americans.

Across the globe, the labor of millions of men, women and children is still obtained by means of force, intimidation or sheer desperation. Many live or die, solely at their employers' discretion. These workers are neither players nor beneficiaries in the emerging global economy. They are its pawns.

The political result is clear. Workers who are denied basic labor rights have little hope of controlling their governments.

Those who are prevented from speaking, meeting and associating freely cannot band together to form unions to protect themselves from the overwhelming power of the state or its economic and political allies.

In this regard, recent history is illustrative. It was no accident that democratic trade unions played an active role in keeping Western Europe free after World War II, that Solidarnosc was key to the Soviet collapse, or that from South Africa, to Chile, to the Philippines, wherever democracy is taking hold, free trade unions have been there.

They are a pillar of democracy, giving ordinary working men and women a voice in their own political and economic destiny.

In the economy arena, the stakes are equally high. Today, capital flows freely across international borders. Technology is almost completely mobile.

Exchanges between branches of multinational corporations account for almost half of all world trade, and several international corporate empires now have incomes at their disposal that are greater than the total gross domestic product of many medium-sized nations.

It has become a simple thing for companies to shop the world for the least expensive, most exploitable, and best trained workers.

The employment and investment requirements of one nation are easily played off against the economic desperation of another. But workers' rights and families needs can be repressed by force, if necessary.

For most Americans, the economic consequences are a matter of plain common sense. If workers do not earn enough to buy the

goods that they make, you will end up with too many workers with too little money, chasing too many goods and services.

Today, developed and developing nations alike are trying to cope with the results. Chronic unemployment social and political destabilization, increasing income inequality, and stagnating real wages and living standards, the very circumstances, in fact, which preceded and cause the Great Depression.

Until worker rights criteria become an integral part of multilateral trade and assistance arrangements, and until the operations of multinational corporations become more transparent and accountable to the citizens of the nations in which they operate, these structural problems in the global economy will persist.

Therefore, as we examine U.S. aid, trade and assistance proposals, our questions are these: while we work to promote economic growth, how can we ensure that we are not imposing new hardships on poor and working people in both developed and less developed nations?

How can we ensure that workers prosper along with the wealthy? And how can we ensure that any burden is shared equally by all citizens and is not just imposed upon workers?

In this regard, we are generally pleased by the Clinton administration's proposals for foreign assistance. The current law, first adopted in 1961, was designed to respond to the needs and priorities of a world that no longer exists. We agree with Secretary Christopher that a new framework is needed.

We are especially gratified by the administration's emphasis on democracy promotion and broad-based economic growth as fundamental goals of U.S. policy.

We believe that the new framework would improve America's ability to respond swiftly and flexibly to a changing world situation. We are also in full support of new efforts to improve U.S. economic competitiveness through export promotion and the development of new markets for U.S.-made products.

Finally, let me say a few words about Aid for Trade. The AFL-CIO is on record in support of Aid for Trade legislation. We have long argued that the promotion of equitable development in the less-developed world and the promotion of domestic economic interests are not mutually exclusive objectives, and we see Aid for Trade as a useful concrete mechanism to advance this concept.

We do have some reservations, however, which we have spelled out in the past. Let me mention just a few of them. First, we think it is important that capital projects funded by American foreign assistance do not directly compete with U.S. production.

It would make little sense to us if efforts to boost U.S. capital exports resulted, for example, in the construction of steel mills which could ultimately harm the U.S. domestic industry.

Second, we strongly support language that would place limitations on the ability of AID to waive buy American requirements.

Third, we would also like to see a requirement that the transport of U.S. goods and equipment be done on American flag carriers.

There are probably one or two other concerns which I have overlooked, but I would be more than happy to provide additional information for the record if the subcommittee so desires.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Fishman follows:]

PREPARED STATEMENT OF PHILLIP FISHMAN

Mr. Chairman and members of the Subcommittee, on behalf of the AFL-CIO, I thank you for the opportunity to share our views on U.S. foreign assistance, trade and investment.

As veterans of last year's battle over NAFTA, I assume that all of you have heard something about the AFL-CIO's qualms over aspects of America's international trade and investment policies. And, despite our opponents' attempts to characterize our opposition to NAFTA as isolationist, protectionist—or both—I also assume that many of you know that the American labor movement has a long history as one of the most internationalist forces in this country.

The AFL-CIO's role in the NAFTA debate was a demonstration of our deep conviction that worker rights must become an integral part of U.S. foreign, trade, aid and investment policies. Regarding NAFTA we remain concerned about U.S. worker's job loss and the exploitation of Mexican workers. It is a conviction grounded in the same principles that have always guided the AFL-CIO—a belief that workers, everywhere, have a right to life, liberty and a fair share in the fruits of their labors. This is why, after World War I, AFL President Samuel Gompers conceived of, and helped to establish, the International Labor Organization; why, after World War II, the American labor movement provided critical support for the launching of the Marshall Plan; and why, throughout the Cold War, American workers always supported a strong national defense and an active U.S. aid and trade program.

With the end of the East-West divide, we do not advocate a pull-back from foreign entanglements, but rather that the nation move forward in its efforts to promote peace, prosperity and democracy around the world. For us, these goals are inseparable, one from another, as is their pursuit from our struggle to defend and extend American liberties and living standards.

Across the globe, the labor of millions of men, women and children is still obtained by means of force, intimidation or sheer desperation. Many live or die, solely at their employers' discretion. These workers are neither players nor beneficiaries in the emerging global economy. They are its pawns.

The political result is clear. Workers who are denied basic labor rights have little hope of controlling their own governments. Those who are prevented from speaking, meeting and associating freely, cannot band together to form unions to protect themselves from the overwhelming power of the State or its economic and political elites. In this regard, recent history is illustrative. It was no accident that democratic trade unions played an active role in keeping Western Europe free after World War II, that Solidarnosc was key to the Soviet collapse, or that from South Africa, to Chile, to the Philippines—wherever democracy is taking hold—free trade unions have been there. They are a pillar of democracy, giving ordinary working men and women a voice in their own political destiny.

In the economic arena, the stakes are equally high. Today, capital flows freely across international borders. Technology is almost completely mobile. Exchanges between branches of multinational corporations account for almost half of all world trade, and several international corporate empires now have incomes at their disposal that are greater than the total gross domestic product of many medium sized nations. It has become a simple thing for companies to shop the world for the least expensive, most exploitable and best trained workers. The employment and investment requirements of one nation are easily played-off against the economic desperation of another, where workers' rights and families' needs can be repressed by force, if necessary.

For most Americans, the economic consequences are a matter of plain common sense: If workers don't earn enough to buy the goods that they make, you will end up with too many workers with too little money, chasing too many goods and services. Today, developed and developing nations alike are trying to cope with the results—chronic unemployment, social and political destabilization, increasing income inequality, and stagnating real wages and living standards—the very circumstances, in fact, which preceded and caused the Great Depression.

Until worker rights criteria become an integral part of multilateral trade and assistance arrangements—and until the operations of multinational corporations become more transparent and accountable to the citizens of the nations in which they operate—these structural problems in the global economy will persist.

Therefore, as we examine U.S. aid, trade and assistance proposals, our questions are these: While we work to promote economic growth, how can we ensure that we are not imposing new hardships on poor and working people in both developed and less developed nations? How can we ensure that workers prosper, along with the

wealthy? And how can we ensure that any burden is shared equally by all citizens, and is not just imposed upon workers?

In this regard, we are generally pleased by the Clinton Administration's proposals for foreign assistance. The current law, first adopted in 1961, was designed to respond to the needs and priorities of a world that no longer exists. We agree with Secretary Christopher that a new framework is needed.

We are especially gratified by the administration's emphasis on democracy-promotion and broad-based economic growth as fundamental goals of U.S. policy. We believe that the new framework would improve America's ability to respond, swiftly and flexibly, to a changing world situation. We are also in full support of new efforts to improve U.S. economic competitiveness through export promotion and the development of new markets for U.S.-made products.

There are, however, several ways in which the Administration's proposal should be improved:

First, we have been troubled by recent, deep cut-backs in assistance to Asia and Latin America. While we understand the need to set new priorities, and to shift resources accordingly, we urge that the needs of these regions and of Africa not be forgotten.

Second, we would like to see even greater flexibility in foreign assistance programs. For instance, in order to enhance democracy-promotion efforts, Agency for International Development funding should be allowed for nongovernmental, democracy-building initiatives in nations which are not eligible for AID government-to-government programs, due to economic graduation or hostility to the United States. The per capita GNP figures, which govern graduation, tell us nothing about the distribution of income and may hide the reality of a deeply impoverished citizenry. These people, and their democratic civil institutions, should not be prohibited from receiving our assistance. In the case of governments which are hostile to U.S. values or which sponsor terrorism, it can be argued that any prodemocracy civil institutions that are able to survive under these regimes need our aid and support more than any others. Consideration should also be given to changing the current practice that allows some nondemocratic governments to approve or disapprove AID funding for democracy-building initiatives that involve direct NGO-to-NGO assistance.

And third, we believe that workers' rights and families' needs should become a more explicit part of our efforts to promote peace, prosperity and democracy. The unfolding crisis in Russia is a dramatic illustration of this point. In large measure, the current political instability and social upheaval were brought about by the failure of economic restructuring programs to take real people into account. This is not to say that we advocate a slow-down in such programs or a pull-back of Western aid. In fact, much more must be done, and done quickly, in order to prevent a the current window of opportunity from closing for another generation.

Contrast our current response to the needs of Russia and the other nations of the former Soviet Union with our efforts in Western Europe under the Marshall Plan. Then, we pledged an enormous proportion of the nation's war-drained resources to rescue a region's shattered societies. Now, we pledge a modest amount, and have yet to deliver more than a minuscule percentage of this sum. Then, we developed and coordinated a broad program—with an equal emphasis given to the forging of a strong civil society, including free unions, a free media and other independent, democratic institutions; the establishment of democratic government, including administrative, parliamentary and judicial systems on a national and local level; and the reconstruction of the economy, including the building of a public infrastructure, as well as a thriving private sector. Now, our technocrats offer platitudes about the benefits of the free market, and in the same breath complain that those who suffered under 70 years of totalitarian rule are unwilling to suffer enough so that they might join the modern industrial era. Is it any wonder that reactionism has begun to take hold?

Clearly, throughout the former Soviet bloc, there needs to be a major withdrawal of the State from ownership and from economic micro-management. But it is equally important that the extent of this withdrawal not be determined by dogmatists—as was the overwhelming extension of State power—but by democratic debate and decision. Western institutions should see to it that this critical transition period includes the best possible coordination—with equal standing—between social and economic policies. Social initiatives that serve as little more than afterthoughts to the ravages of market economics will not avoid the protracted chaos that the world now fears.

The AFL-CIO stands ready to work with the administration and the Congress in pursuit of these policies.

Senator SARBANES. Thank you, Mr. Fishman. Mr. O'Leary.

STATEMENT OF RICHARD O'LEARY, CHAIRMAN OF THE U.S. CHAMBER OF COMMERCE'S SUBCOMMITTEE ON EXPORT FINANCING

Mr. O'LEARY. Thank you, Mr. Chairman and Senator Kassebaum. We have submitted a rather extended statement which—

Senator SARBANES. And the full statement will be included in the record. We are very pleased to have it, and we appreciate the effort that obviously went into it.

Mr. O'LEARY. It reflects the policies adopted by the chamber board on behalf of the 215,000 members this week, after full consideration of the legislation before us.

The chamber has long advocated the conscious and explicit integration of economic security and diplomatic priorities, and we are heartened by the President's proclamation, his 1995 budget statement, that international and security policy priority is in the health and competitiveness of the U.S. economy and a healthy global economy.

Perhaps it would be best to just advance a few comments, not necessarily strung together in a great logic. Maybe we ought to deal with some myths.

I think it has long been a myth that AID's addressing human needs is exclusive of the commercial interests of the United States. We do not think that AID policy should be driven by the commercial interests of the United States.

What we advocate is that when we come to grips with that balance of priorities which justifies the extension of aid, that we take our economic interests into consideration as a priority.

We consider that the examples of those countries which have grown from under-developed countries to very self-sufficient countries, which were previously mentioned, which it was my pleasure to visit back in the mid-1950's were in that state, they grew in our judgment because those cultures could put in place the hard economic assets around which all the other considerations could be built.

If we simply consume our aid—that is, to put them into situation in which we do not establish any residual durable assets—the minute we quite spending it, we have no carry-on benefits.

Another myth is that somehow my colleague to my left and American business do not share common cause on these issues. We do share common cause. We are in full accord with our friends from the AFL-CIO that a healthy America can only come if we develop jobs.

We will only develop jobs through exports if we assist lesser-developed countries in building their infrastructures and raising their standard of living so they can afford to buy the products that are produced by the American jobs.

We applaud the efforts reflected in this legislation to make some progress toward putting together a statement that reflects the post-cold war reality. We do not think that the draft as it now stands goes far enough.

We think it falls short of the President's vision. It fails to address the full spectrum of fundamentals that are required for truly sustainable development.

And frankly, the inability of the Secretaries to respond to the chairman's question as to just what they meant by things that were sustainable development as contrasted with things that were not, I am frankly at a loss to explain why they were confused.

It strikes me, if we do not think we are achieving sustainable development with the expenditure of AID dollars, then it is highly questionable as to whether or not we should be extending them, because it is sunk funds.

We think that by managing trade and aid intelligently, we can help the developing world, we can advance U.S. economic interests, and we can build the political support here at home that is vital to sustain an effective foreign assistance program.

Thank you, Mr. Chairman, for this opportunity. We stand ready to assist the staff of the committee in working on these problems. [The prepared statement of Mr. O'Leary follows:]

PREPARED STATEMENT OF RICHARD O'LEARY

Mr. Chairman and members of the Subcommittee, I am Richard O'Leary, co-chairman of H Enterprises International, a holding company with more than \$400 million of diverse domestic and international interests, headquartered in Minneapolis. On behalf of the U.S. Chamber of Commerce membership of 215,000 businesses, 3,000 state and local chambers of commerce 1,200 trade and professional associations and 69 American Chambers of Commerce Abroad, I appreciate this opportunity to comment on U.S. foreign assistance programs, specifically the "Peace, Democracy and Prosperity Act of 1994." Three days ago, our Chamber Board of Directors, a group of 58 CEO's of businesses of all sizes from around the nation, reviewed this Act and issued a statement which is embodied in my testimony.

Today, I will discuss two main issues: first, the need for a new approach to foreign assistance which reflects U.S. evolving national interests in the post-cold war era and second, the Chamber's views on the extent to which the act before this subcommittee supports this approach.

FOREIGN POLICY PRIORITIES

While a new consensus on the objectives of U.S. foreign policy is still forming, it is clear that our national interest in a post cold war era importantly includes our economic interests along with the more traditional concepts of diplomatic and security concerns which dominated policy over the past 45 years. Our national foreign policy goals are increasingly *defined* by the current and past administration in terms of our own economic interests. For several years, the Chamber has been arguing for a conscious and explicit integration of U.S. economic, security and diplomatic priorities.

We are heartened by the sections of President Clinton's 1995 budget submission to Congress dealing with National Defense and International Affairs. The first "basic objective" for promoting our values and defending our national interests, says the President, will be "integrating a healthy American economy into a healthy global economy." The administration's internal review of foreign and defense policies, says the Budget report, "has led to fundamental changes in our foreign policy, putting trade, competitiveness and market expansion front and center." Finally, the President lists our "highest priority international and national security policy issues: our first priority is the health of the American economy and its *competitiveness* in a healthy global economy."

If the first priority of foreign policy is the creation of an American economy competing successfully in a global market, then, foreign assistance programs should, by definition, clearly support this objective. We believe that past foreign assistance policies, programs and practices, and the Act now under discussion, have not incorporated our economic interests as a priority and in many respects have been antithetical to such interests.

FOREIGN ASSISTANCE AND U.S. ECONOMIC INTERESTS

Economic expansion of the developing world advances the full range of U.S. national interests: economic, strategic, democratic, and humanitarian. Growing economies in the developing world sustain U.S. employment, nurture the spread of democracy, promote stability and raise living standards across populations. An effective

tive foreign assistance program that contributes toward that end makes sense for business and for the nation.

First, these emerging economies represent our fastest-growing export markets, now accounting for over 40 percent of overseas sales. An increasing number of American jobs, and higher-paying manufacturing and service jobs are dependent on these markets. This trend will continue. These markets are the testing grounds for U.S. companies' ability to compete on a global basis. To the extent our foreign assistance programs stimulate economic growth in the developing world, the demand for U.S. products and services should grow accordingly.

Second, we support the Administration's new emphasis on democracy-building as a priority foreign policy goal. Ultimately, a democratic system is the best guarantor of property rights and contracts and other elements of a market economy, and creates a positive environment for long-term, mutually beneficial trade and investment relationships between U.S. and indigenous firms.

Third, foreign assistance can encourage market-oriented policies in recipient countries which spur the growth and the development of private enterprise that will attract U.S. commercial engagement with these emerging markets.

INGREDIENTS OF DEVELOPMENT

As the experience of several nations over the last 40 years demonstrates, sustained economic development is best achieved by the proper mix of policies, institutions and infrastructure. Recognizing these lessons, a U.S. foreign assistance strategy should focus on three mutually supporting objectives:

1. *Economic Policy Reform.*—Sound economic policies regarding exchange rates, prices, money supply, financial regulation, reliance on market forces are vital to development. Similarly, trade and investment policies should promote engagement with the international economy. Reducing trade barriers to imports, encouraging investment linkages with developed nation firms and creating the right conditions to boost the competitiveness of local firms are proven means of stimulating growth.

2. *Institutional Development.*—The inadequacy of basic institutions necessary to a market economy inhibit growth in many developing countries. A legal system that protects property and encourages reliable commercial relations; a financial system that allows capital to fund its most efficient uses; and a regulatory System that does not hamstring private initiative and entrepreneurship are examples. These and other institutions, such as elections, become the framework for a democratic society.

3. *Infrastructure.*—The development of physical infrastructure (e.g. transportation, energy, telecommunications, medical facilities) and human capital (education, worker and management training, the diffusion of technology) are prime contributors to growth.

FOREIGN ASSISTANCE AND ECONOMIC SELF-INTEREST

With the above factors in mind, our goal should be a foreign assistance strategy which advances our commercial interests as an integral part of the development efforts of the recipient countries. Given the competitive pressures we face in global markets, especially in the fast-emerging ones, it is simply not the case that stimulating growth in the developing world will necessarily benefit U.S. firms more than our world competitors. For example, using foreign assistance to encourage a reduction in import restrictions in a developing economy could certainly help U.S. products gain market access; it will also benefit Japanese, French or Canadian firms. The same is true of institutional reforms and, to a certain extent, infrastructure improvements.

We are not arguing that the United States cease funding programs on policy reform or institutional development. But we should balance these priorities with programs which have more direct benefit to *our* competitive posture. Development and U.S. commercial interest are not antithetical. The U.S. Government should develop a coordinated, inter-agency approach which focuses on the aspects of each of these main themes in development which will most advance U.S. economic interests. For example, we might concentrate on the development of a telecommunications system in a country and the policy and institutional frameworks associated with that sector as a way to benefit *both* that country's economic growth and U.S. commercial interests.

CAPITAL PROJECTS AND INFRASTRUCTURE

The intersection of our economic interests and the needs of the developing world are nowhere more dramatic than in the area of capital projects and infrastructure. Adequate power, transportation and telecommunication infrastructure are necessary components of real development. Capital projects provide the base for industry and for improvements in standards of living and the development of outward-oriented

growth strategies. The success of export-driven development depends on rapid industrialization which requires investment and infrastructure, in addition to sound government policies. The World Economic Forum ranks a number of developing countries on the basis of their international competitiveness. Nations that rank near the bottom of their list, in no small part is due to inadequate infrastructure.

Economic trends and migration to the cities are making capital projects more important to development and to the poor. Accelerating urbanization in the developing world is straining and overwhelming existing infrastructure. Lack of infrastructure and environmental protection such as power, clean water, sewage treatment, solid waste removal, transportation, telecommunications lowers productivity, undermines health concerns, raises infant mortality and generally lowers the quality of life for huge and growing urban populations, reducing U.S. economic opportunities. Thus, many capital projects directly benefit the poor. In short, the threat of inadequate or eroding infrastructure to sustainable development and the environment has been well-documented.

There is an argument that capital projects are "white elephants" with questionable developmental impact. Developmental soundness can and should be a prime criterion for any capital project backed by U.S. public funds. It is neither fair nor historically accurate to claim that capital projects have represented a higher level of waste or mismanagement than any other form of foreign assistance.

The participation in major capital projects has become a competitive imperative for many of our most active and successful exporters. Sales of capital goods comprise over 50 percent of U.S. manufactured exports. Yet since the mid-1970's, our foreign assistance strategy has virtually abandoned capital project support, and the trend has been worsening over the past few years.

Recognizing the value of capital projects to their own commercial interests, many of our competitors continue to use their assistance programs to win contracts for their own firms. In effect, U.S. firms are either forced to bid on projects using their foreign subsidiaries, whose governments will support their bid with foreign assistance resources (and foreign labor), or simply pass up the business.

It is more than just the loss of a specific contract that is at stake. Major capital projects, such as power generation or telecommunications systems, produce a stream of ongoing business in spare parts and the establishment of technical standards which will dominate future expansion in a certain area. Loss of immediate project contracts are thus only a partial picture of the loss to our competitive position in some of these markets of the future. Apart from the effect on U.S. economic interests, the failure to apply our resources to projects with hard, enduring value denies the developing country assets that are vital to maintaining development.

In this competitive environment, the current and proposed support for U.S. participation in capital projects seriously underestimates the need. The Trade and Development Agency plays a positive role in helping U.S. firms participate in the initial stages of major projects, but it has neither the resources nor the mandate to match what our competitors put into the contest. With the exception of Egypt, the Agency for International Development (AID) has only marginally been involved in capital projects, despite strong congressional support to expand in this realm.

While the OECD agreement on mixed credits does reduce the scope of such financing and has had an impact, it leaves projects with higher concessional rates open to our competitors. The \$150 million fund earmarked by the Trade Promotion Coordinating Committee to the Export-Import Bank last September to combat the use of mixed credit financing by OECD competitors is not being used proactively enough to meet the challenge. In short, there remains a significant gap in U.S. Government efforts to help our firms meet the competition in capital projects—a gap which our competitors are glad to see unfilled.

THE PEACE, PROSPERITY AND DEMOCRACY ACT

The Chamber believes that the Act before the Subcommittee improves our foreign assistance efforts by:

- Better clarifying the purposes of our foreign assistance programs and reducing the 33 separate goals and 75 priority areas;
- Giving the Executive Branch more discretion in implementing the goals;
- Calling for better coordination among federal agencies;
- Emphasizing multilateral efforts consistent with our national goals;
- Identifying the promotion of growth through trade and investment as one of the six priority objectives of our foreign assistance program; and
- Strengthening provisions to ensure U.S. private sector procurement to support development projects.

Despite this progress, the Act falls short of the approach we have been advocating in significant ways:

- The Bill does not explicitly recognize that a vital component of foreign assistance should be the support of U.S. economic interests, and that the support of U.S. business participation in the developing world should be a priority objective of foreign assistance programs. In light of the fact that the President set trade and competitiveness as the highest priority of our foreign policy, then foreign assistance programs should explicitly support such a goal. The Act should state that the commercial engagement of U.S. firms in these countries can advance *both* our own national interests and furthers sustainable development. Effective monitoring mechanisms and reporting requirements should be established in order to ensure that these goals are met.

- The Act does not call for the integration of the goals of foreign assistance programs into the larger national export development strategy as outlined in the Trade Promotion Coordinating Committee (TPCC) report to Congress and as formulated by the White House. The intersection of our economic interests with the developmental priorities of recipient countries should be a focus for foreign assistance programs. For example, the TPCC recently identified emerging country markets and key sectors which have significant U.S. export potential. Our foreign assistance programs should be asked to contribute to the realization of this potential, while at the same time addressing the development needs of the recipient country. This again should be a coordinated, interagency approach, with the foreign assistance and trade and commerce-oriented agencies working closely together toward the same ends.

- While Title V realizes the importance of U.S. trade, investment and exports to employment and prosperity, the Act eliminates any programs designed to promote trade and investment from the mandate of AID. The bill states that these goals will be met by other agencies—Overseas Private Investment Corporation (OPIC), The Trade Development Agency (TDA) and the Export-Import Bank—without addressing the question of what resources will be used to meet these additional responsibilities.

- The Act fails to acknowledge the critical role of capital projects and infrastructure in development and allocate authority and resources to specific agencies to stimulate the participation of U.S. firms in such development. The Act never even mentions the words "infrastructure" or "capital projects," a glaring omission given the importance of these areas to development. In fact, the Act specifically repeals Title III of the "Jobs Through Exports Act of 1992" which called for AID to establish an office to support developmentally sound capital projects. If AID is not involved, and we would submit that no agency should be excused from addressing our national priorities, the Act should specify which agencies have this responsibility under the TPCC plan and give them sufficient resources to accomplish the mission. For example, the Trade Development Agency should be a prime candidate for a major role in this area.

- The Act specifically targets Sub-Saharan Africa, the former Soviet Union, the African Development and Inter-American Foundations and other programs without stating why these programs warrant this priority attention as opposed or in addition to other programs which could also be consistent with the very generic objectives of the bill.

- While there are sections calling for cooperation with private voluntary organizations, cooperatives and credit unions, there is no mention of cooperation with the business community in the planning, development or implementation of foreign assistance programs aimed at an otherwise undefined "sustainable development."

- Supervision of foreign assistance under this bill, including the role of OPIC, TDA and the multilateral financial institutions, is given to the Secretary of State. Given the multiple purposes of foreign assistance, which should include the promotion of U.S. economic interests, this management arrangement should include the direct involvement of the National Economic Council and the agencies responsible for economic policy and programs (e.g., Treasury, Commerce, Agriculture).

Most of our competitors realize that economic interests and development are mutually supportive. This does not mean funding infrastructure projects with marginal developmental impact just because a U.S. firm can win a contract. It does mean that we should use our scarce resources where they will have the most job-producing, commercial benefits for the infrastructure.

While H.R. 3765 attempts to clarify the purposes of our foreign assistance programs and reduce the proliferation of objectives, it fails to adequately address our

economic interests. Including TDA and the OPIC in the Act simply reauthorizes existing programs—the fundamental shape of foreign assistance is not altered to reflect the President's highest foreign policy objective: a competitive American economy engaged in a healthy world economy.

Adopting the U.S. Chamber's recommendations would not only benefit U.S. business and support American jobs, it would also better leverage our scarce resources. By managing trade and aid more strategically, we can help the developing world, advance our economic interests and build domestic political support vital to a sustained and effective foreign assistance program.

Mr. Chairman, we appreciate this opportunity to share our views as you consider ways to enhance the effectiveness of our foreign assistance efforts.

Senator SARBANES. Thank you very much. Mr. O'Leary. That was a very helpful statement. Mr. Hardy.

STATEMENT OF JOHN HARDY, JR., DIRECTOR, CORPORATE DEVELOPMENT AND FINANCE, BROWN & ROOT, INC., COALITION FOR EMPLOYMENT THROUGH EXPORTS, INC.

Mr. HARDY. Thank you, Senator Sarbanes and Senator Kassebaum.

On behalf of CEE, I appreciate the opportunity to discuss proposed reforms to the foreign aid program. During the brief time that I have, I would like to make several points.

First, the U.S. foreign aid program is structured differently than the aid program of every other major developed country in that it lacks any significant program with which to support capital infrastructure projects.

Every other major aid donor believes that the principles underlying capital project support are compatible with the development needs of developing countries, so that a meaningful capital projects program is an integrated element of their foreign assistance program.

Second, this gap in the structure of U.S. foreign aid, means that American firms pursuing capital projects in the developing world are severely disadvantaged by an adverse competitive environment by having to compete against firms whose governments use their foreign aid funds to finance these projects and thereby disadvantage U.S. firms who lack comparable U.S. Government support.

The result has been a significant erosion over the last 10 to 15 years of what used to be an often dominating U.S. market presence in critical sectors of the developing world market, including India, Indonesia, Thailand, China, Brazil, Argentina, and Columbia and the like.

And where that erosion has finally be arrested by increased U.S. competitiveness, disadvantaged American firms continue to have difficulty in establishing a strong market presence because of the uneven playing field.

In telecommunications, public power, transportation systems, water supply and sewerage projects, a seemingly infinite variety of environmental projects, and other civil infrastructure projects, U.S. firms confront foreign aid funds used by our trading competitors to advantage their own countries' firms.

I might note that these are not the sort of "white elephant" projects that those who oppose capital projects use to characterize and define the program. These are projects which are fundamental to the development interests of these countries but which are also supportive of American business overseas.

With regard to the administration's foreign aid reform proposal, in spite of its declaration that the promotion of growth through trade and investment is one of its objectives, this administration continues the U.S.'s historical approach of ignoring the benefits to U.S. workers and U.S. competitiveness of a meaningful capital projects program.

In fact, when coupled with the proposed restructuring of the AID program, this administration is proposing a further withdrawal from capital projects activities funding.

CEE strongly objects to the proposed repeal of Title III of the Jobs Through Exports Act of 1992 without the administration addressing capital projects in any manner.

As you will recall, Mr. Chairman, in 1991, the U.S. Senate voted 99 to 0 in favor of legislation sponsored by Senators Boren, Bentsen, Baucus, Senator Byrd and Senator Lieberman, to establish a viable capital projects program in AID.

The coalition continues to believe that the overwhelming Senate support for this program needs to be translated into substance in a new initiative. Since AID continues to ignore the congressional mandate, CEE supports a new initiative to establish an infrastructure window in the Trade and Development Agency.

As part of the more integrated approach to export promotion and development assistance in the foreign aid program, the coalition also strongly supports a several-fold increase in the budget of the Trade and Development Agency for feasibility studies and design engineering.

This agency has proven itself efficient and effective in balancing the twin objectives of trade promotion and development.

Demand for its services now so far outstrips its funding levels that it can utilize a budget three or four or more times its present size.

While we are encouraged by the administration's initiative for a tied aid fund at EXIM Bank and even more so by Chairman Brody's declared more aggressive use of that fund, the coalition emphasizes that its use is limited to a narrow sphere of activity.

EXIM itself does not see the tied aid fund as intending to fill the gap in development and financing for capital projects. The coalition agrees.

Mr. Chairman, you and your subcommittee are to be congratulated on undertaking this effort to consider reforms to U.S. foreign aid. The reallocation of resources to allow for increased infrastructure funding would be a major step in increasing high value-added U.S. jobs as we assist our new trading partners to develop.

On behalf of CEE, thank you for the opportunity to testify.

[The prepared statement of Mr. Hardy follows:]

PREPARED STATEMENT OF JOHN HARDY, JR.

Mr. Chairman and Members of the Subcommittee: My name is John Hardy and I am Director of Corporate Development and Finance for Brown & Root, Inc. Brown & Root is one of the largest international engineering and construction companies in the world. A wholly owned subsidiary of the Halliburton Co., Brown & Root employs over 50,000 employees and last year had revenues of approximately \$3.8 billion, serving diverse industrial companies and government clients in approximately 60 countries around the world.

During the last thirteen years, I have worked in close association with our bilateral aid program: six years as the Deputy Director of the Trade and Development

Program (now Trade and Development Agency), during which time I was also the Acting Director for two years, and over two years in the Agency for International Development (AID), before joining Brown & Root four years ago.

I am here today representing of the Coalition for Employment through Exports (CEE). A broad-based coalition of American exporters, labor unions, and state governors, CEE was organized in 1981 to promote U.S. exports and employment. Since that time, CEE has pioneered efforts to increase awareness of this linkage and to promote competitive export finance programs to help U.S. companies compete in international markets.

Mr. Chairman, the Coalition appreciates this opportunity to appear before the Subcommittee on the Administration's foreign aid reform proposal, the Peace, Prosperity, and Democracy Act of 1994. At this time, I would like to concentrate on the role U.S. economic and commercial interests should play in a revitalized foreign aid program.

The Coalition is encouraged that the Administration's foreign aid reform proposal includes, as one of its major objectives, the promotion of growth through trade and investment. Title V of the bill states that **"Economic growth and creation of employment opportunities in the United States are directly and materially enhanced by international economic growth and trade liberalization."** The bill also includes a statement of policy that **"The provision of a comprehensive and coordinated program of export financing, investment insurance, guaranties and feasibility studies significantly enhances the ability of the private sector to pursue trade and investment opportunities in developing countries."**

Unfortunately, the Coalition finds these objectives inconsistent with the Administration's proposal in the bill to repeal Title III of the Jobs Through Exports of 1992. CEE strongly objects to the repeal of the provision, without an appropriate substitute or without addressing capital projects in any manner. Once again, we believe the Administration is ignoring a very significant issue which is of major importance to U.S. competitiveness in overseas markets.

As you will recall, Mr. Chairman, in 1991 the U.S. Senate voted 99-0 in favor of legislation sponsored by Senators Boren, Bentsen, Baucus, Byrd and Lieberman to establish an Office of Capital Projects in AID and to increase funding for infrastructure. Similar legislation was later included in the Jobs Through Exports Act of 1992. **The Coalition believes this provision is very important since it addresses a significant gap in infrastructure funding in our foreign economic assistance programs.** Unfortunately, AID continues to ignore the congressional mandate for increased capital projects. As a result, CEE supports the establishment of an infrastructure window in the Trade and Development Agency.

While we are encouraged by the Administration's initiative for a tied aid capital projects fund at Eximbank, the Coalition recognizes that its use is limited. It is not intended to fill the gap in development financing, which must be addressed through better use of our foreign economic assistance funds.

CEE believes that there is a critical gap in the U.S. foreign assistance program—the absence of any program for financing major capital projects in the developing world. In every other major foreign aid program, capital projects represent a major component of the assistance provided—improving infrastructure of the developing country and providing benefits to the donor country in terms of increased exports and employment. Such a program would create export opportunities for U.S. firms by enabling them to compete on even terms with capital project funding provided by foreign governments. **The Coalition supports the establishment of a capital projects program as a "second window" in the Trade and Development Agency.** Under TDA's guidance, this program could balance sound developmental objectives and simultaneously promote and support high value-added jobs in the United States.

The Gap in U.S. Foreign Economic Assistance Programs

Foreign aid in the post World War II era has played a vital and meaningful role in the conduct of American foreign policy. It has been a reflection of the generosity, concern and humanitarian spirit of the American people, in reaching out to the poorer and less advantaged people around the world, to assist them in their efforts to improve their economic well being.

Foreign aid throughout this period has also been a significant element in the maintenance of U.S. security considerations. It has often served as a tangible reflection of U.S. commitments, cementing relationships promoted for political and military reasons.

What has not been reflected in the U.S. foreign aid program, contrary to the aid program of virtually every other developed country, is any recognition that domestic

economic and commercial well being and foreign economic assistance objectives are mutually supportive.

The most important contribution the U.S. can make to economic progress in developing countries lies in our own growth and economic vitality. A strong U.S. economy generates increased markets for developing country exports. The greater the trading relationship the U.S. has with countries that are developing, the more robust their economies will be and the more quickly they will grow.

What has also not been reflected in our foreign aid program is a recognition that aid funds are uniquely able to assist both sides of this economic equation—strengthening high value jobs and export competitiveness in the United States while supporting critical infrastructure projects necessary to the economic expansion of so many developing countries. For our export competitors, the promotion of business and development through their bilateral development assistance programs is inextricably tied.

Our economic assistance program has minimized the commercial benefits accruing to the U.S. economy from critical developing country markets. Moreover, our foreign aid program has specifically neglected U.S. commercial interests in addressing the physical infrastructure needs of developing countries. The result is that U.S. firms have been disadvantaged by our competitors using their government's aid programs to capture important projects and protect high value jobs which fifteen years ago would have been American.

The premises underlying our aid program have been and are out of balance. U.S. economic assistance must become part of the U.S. response to changing economic interests around the world. The context for foreign aid is changing and concerns about U.S. economic competitiveness are mounting. An American foreign assistance program which will compete on an equal footing for major capital projects in the developing world will better assist and support a strong foreign policy and maintain a prominent position for the U.S. internationally.

The U.S. cannot afford a foreign assistance program which so readily neglects U.S. economic interests. U.S. economic assistance must be restructured to give appropriate weight to U.S. economic interests as well as balance important humanitarian and security considerations. The other two considerations need not be compromised in order that U.S. commercial interests are recognized and supported.

Need for Infrastructure Funding in our Foreign Economic Assistance Program

There are two key reasons why we need infrastructure funding in our foreign assistance program. The first reason is that it would respond to important developmental needs which are not now being addressed by the existing foreign economic assistance program. Adequate power, telecommunications systems, rail systems, airports and road systems, water supply and sewerage systems, and the like, are all in critical need in the developing world. The absence of basic physical infrastructure is constraining the capability of these countries to grow. They cannot develop if they lack power with which to manufacture goods and keep the lights on in the workplace, or if buyers cannot communicate with sellers. They cannot export if they lack airfields and ports to physically move their goods out of the country.

There has been a steady decrease in the allocation of economic assistance funds to infrastructure projects over the past decade—from \$1 billion in 1984 (20 percent of the AID budget) to about \$360 million in 1993 (5 percent), despite some increases in the budget.

AID has consistently sought to minimize the use of economic assistance funds for infrastructure projects, restricting such funding essentially to Egypt, where Economic Support Funds (ESF) are so plentiful that they cannot be obligated without resort to the funding of a few such projects. Even though infrastructure project funding is permissible in our aid program, the "New Directions" mandate of the early 1970's has led our bilateral aid program away from capital projects. AID no longer considers infrastructure projects a development priority.

Even in Eastern Europe, where the developmental needs of the region particularly lend themselves to infrastructure project lending, AID cannot bring itself to embrace the concept. Eastern Europe is not the developing world. It is a region in a 40 year time warp, with countries as sophisticated in the 1940's as their Western European counterparts, economically frozen in time, with no new infrastructure or technological development since the Communists took control. The radical political transformation of the region opened up not only their political systems, but also their economies, instantly creating brand new markets which in turn

were quickly to be shaped and captured by the first firms that aggressively assisted these countries.

If ever there was an opportunity for an assistance program led by the business community, this was it. Yet, the U.S. aid program has virtually ignored major infrastructure projects and instead generated numerous small scale initiatives—studies, short term technical assistance, small pilot projects, etc. While most are helpful to these countries, the overall impact is disjointed, politically of little visibility and commercially of relatively modest benefit to U.S. firms. Rather than working with and enlisting the support of the business community, AID has generated its programs in isolation, according to its own definition of what assistance these countries need.

Our trade competitors have been more aggressive in taking steps to provide economic assistance that helps the recipient countries while additionally helping their firms shape these new markets so that they can receive maximum benefit from these new commercial opportunities. For too many American firms, their foreign competition is utilizing their country's aid to establish themselves in these new markets and in so doing, establish standards and equipment specifications for these markets which will leave American firms with long-standing competitive disadvantages.

But AID's narrow definition of what constitutes development is not followed by other developed countries. In every other major aid program, capital projects represent a major component of the assistance provided. For example, in 1991, well over half the Japanese and Italian aid programs supported capital projects. That same year, over one third of the German and U.K. programs were devoted to infrastructure projects. To pursue these projects, these programs prominently feature capital projects funds which aggressively pursue major projects where they have both a positive developmental impact on the host country as well as represent significant export markets for the firms from the country providing the assistance.

As a recent study of this issue funded by AID stated, " * * there are fundamental differences between the strategies of the U.S. Government and other major industrialized countries. * * Only the United States lacks a project finance facility devoted to promoting business and development objectives—a factor which has important ramifications not only for the developing countries in which AID works, but also for U.S. competitiveness and long-term trade benefits."¹ It is this "gap" in our foreign assistance programs that disadvantage U.S. business overseas and we urge this Subcommittee to work to rectify this problem.

The existence of this gap in our aid program underscores how difficult it is for AID to be responsive to U.S. commercial interests. AID cannot make this transformation itself. Instead, what is necessary is legislation enunciating a more balanced set of premises underlying our approach to economic assistance—enabling the U.S. to provide significant and meaningful assistance to the developing world while promoting high value U.S. jobs and U.S. competitiveness overseas.

A second reason for including significant infrastructure funding in the U.S. economic assistance program is that it serves the national economic interest of the country—first, by promoting the growth of strong trading relationships between ourselves and developing countries, and second, by promoting and supporting high value-added jobs in the United States.

The need for infrastructure expansion and upgrade is particularly acute among those more advanced developing countries which are important commercial and strategic partners of the United States. Many of these countries indeed prefer assistance in the form of capital equipment and "high-tech" technical assistance, as AID itself has admitted in testimony before the Congress.²

Our government needs to promote the expansion of trading relationships with these countries. Instead, AID "graduates" them, just as their economies are beginning to take off. We, as a country, are reducing the breadth of our economic and commercial relationship with these countries precisely at the time when their markets are creating more opportunities for Americans to benefit commercially and when their economic well being makes them more important to the United States strategically.

Our trade competitors recognize the value of these trading relationships and use their economic assistance programs to promote their trading interests. Seventy percent of the Japanese aid program is concentrated in Asia, where all of their most

¹"The Feasibility of Using Credit to Finance Capital Projects," Coopers & Lybrand, Private Enterprise Development Support Project II, AID p. 24., May 11, 1992.

²Statement of Reginald J. Brown, Assistant Administrator for Program and Policy Coordination, AID, before the Foreign Operations Subcommittee of the Appropriations Committee, U.S. House of Representatives, March 21, 1990.

important developing country markets are located. By contrast, one percent or less of U.S. economic assistance funding goes to our top developing country markets (Mexico, Korea, Brazil, Venezuela, and China). And of our top eight foreign aid recipients in FY 1991, (each having combined ESF and Development Assistance of approximately \$100 million or more), only one, Israel, was among our top 25 trading partners (24th) for that year.

The contrast between the country allocation priorities of our economic assistance program and those of other countries is striking. It underscores the absolute lack of consideration given to enhancing our trading relationships through our foreign economic assistance program—for either our own economic benefit or that of our trading partners—even though it is in our overall strategic interest to strengthen these ties. Instead of merely severing our assistance relationship as these countries reach a certain per capita growth, we need to be restructuring our economic relations so that they are of greater mutual benefit—and assistance in infrastructure development is an important element in that process.

The other way in which significant infrastructure funding would serve the national economic interest of the country is by supporting high value-added American jobs. All of our trading competitors use their aid programs to promote their economic interests. Why does the United States insist on a foreign aid program that minimizes the benefit to American workers when our trading competitors have recognized that they can help their own workers and their own exporters while simultaneously helping developing countries build needed infrastructure?

We should not; in fact, we should insist on the opposite. **We should have an economic assistance program that helps U.S. workers and provides jobs while assisting the developing world.** Doing well in these markets while providing these important developmental benefits would significantly increase exports of capital equipment and services, create new high-value jobs domestically, and contribute to a reduction in the trade deficit.

Over the last 15 years, the developing world, particularly the middle income developing countries, has come to represent a very significant export market for the United States. More fundamentally, the middle income developing countries, with growth rates averaging several times higher than those of our domestic market, are the frontline markets for critical high tech industries—such as power generation, the telecommunications sector, and those industries in much of the transportation sector. **Conceptually, the firms that establish themselves in these markets generate the revenues with which to continue to make technological improvements which, in turn, give them an advantage in competing for opportunities in the developed country markets.**

U.S. dominance in these sectors in the international marketplace, so evident in the 1950's, 1960's and early 1970's, has steadily eroded since then, due to the inability of American firms to compete successfully in these developing country markets. This has led to a significant loss in U.S. market share in these industries, and, in turn, to a loss of much of the U.S.'s technological superiority.

U.S. firms have had such difficulty largely because of the "uneven playing field" phenomenon. Our foreign competitors have been able to draw upon the support of their governments to create subsidized financing, mixing funds from their aid programs at concessional rates with export credit financing from their version of the Export-Import Bank ("mixed credits"), through tied aid and other government programs such as free or heavily subsidized feasibility studies and conceptual engineering, to provide preferred positions for their firms. These efforts have been highly successful and placed American firms throughout this period at a significant competitive disadvantage.

While efforts have been made to bring these practices under control, two points should be noted. **First, where governments are actively prepared to support the commercial interests of their own country's firms, recognizing the beneficial impact on employment and their balance of trade, new mechanisms will constantly be developed to continue to provide an advantage to their firms.** This is unfortunate news for American firms whose government has been unwilling to grasp the gravity of the situation and proactively support U.S. firms overseas.

Second, no effort has yet been made to arrive at any international consensus regarding the appropriate purposes to which economic assistance funding should be allocated. Accordingly, the unwillingness of the United States to allocate funds to support infrastructure projects has placed American firms at a considerable disadvantage, since economic assistance funding serves as a continuing means by which governments of our foreign competitors continue to advantage their firms. A restructured and reformed foreign economic assistance program, in which the interests of U.S. workers is taken

into account, would serve to significantly redress this imbalance, and allow American firms to once again compete on the basis of quality and technological prowess.

Two other considerations support the restructuring of U. S. economic assistance. **Capital projects funding can be established without sacrificing either humanitarian assistance or critical security needs.** A significant portion of our foreign aid is provided in the form of cash transfers, checks written on the U.S. Treasury for which there is no, or negligible, return to the U.S. economy. Why cannot we offer, instead of checks, capital projects or critical elements of those projects as our trading competitors do? The security objective of financial assistance to the country remains the same, merely the form changes.

What we must recognize is that economic, humanitarian and strategic considerations are compatible. They need not be in conflict as appears to be the case now, but can coexist and even be mutually supporting if there is the recognition that each of these objectives is a priority.

A second consideration supporting reform of the aid program is that a **foreign assistance program which is based on new realities and is perceived to benefit U.S. firms and American jobs as it supports developmental objectives overseas, will generate increased budgetary support which will arrest the erosion in the overall foreign assistance budget.** It has become quite evident over the last decade that as the American people have seen fewer benefits to the U.S. economy from our foreign aid program, the support for these programs has dissipated. Support for the aid program has become harder to assemble in Congress, because there is a recognition that the present program, the program developed over the last two decades, is fundamentally out of balance with the economic reality confronted by an overwhelming number of Americans.

As Americans we would like to believe that the U.S. can and should continue to support the world's poor, continue to feed and assist those who suffer so much around the world. But we are also well aware that Americans are struggling to make ends meet, that our standard of living is not secure, that our international competitiveness is in doubt, and that **we can no longer support an aid program without seeing more benefit return to the U.S. economy. A reformed economic assistance program, more sensitive to the generation of American jobs and our international competitiveness, will attract the support necessary for its continued expansion.**

AID itself admits that over the last decade the portion of the bilateral aid program devoted to capital projects has steadily decreased; with that decrease, there has been a steady loss of engineering capability and of the professionals experienced with capital projects. Consequently, AID now lacks the base of skilled and experienced people to technically implement a capital projects program.

More fundamentally, AID is now an agency culturally attuned to developing and implementing the Basic Human Needs mandate that has characterized U.S. foreign assistance since the 1970's. Its professionals are competent and hardworking, and there is a high level of commitment on their part to the humanitarian nature of those programs. Unfortunately, though, there also exists in AID a visceral reluctance to work with the business community, as if infrastructure projects somehow taint the economic assistance effort. This attitude, so prevalent among the career professionals, makes it extremely difficult to see how AID, even if given the mandate, could enthusiastically carry out such a function.

CEE Recommendations

The Coalition believes it is time for a new approach and strongly urges Congress to provide infrastructure funding through a second window in the Trade and Development Agency (TDA) which already has a dual mandate of supporting development and promoting American exports. Currently TDA funds feasibility studies which for projects which are likely to result in U.S. exports. A second window at TDA would fund engineering design services, equipment purchases, and project implementation. An agency responsible for implementing part of the U.S. foreign economic assistance program, TDA is lean, highly effective, and has proven its responsiveness, flexibility and willingness to work with the business community in a balanced effort to extend development assistance while promoting the competitiveness of U.S. firms in major overseas markets.

CEE believes that an infrastructure program in the Trade and Development Agency makes sense, that it will be more efficient in its use of government funds, and that it will better achieve the developmental and commercial objectives we seek.

The Coalition recognizes that this would be a **significant enlargement of TDA's mandate**. We believe that the Agency has been well-managed and proven itself in balancing developmental and U.S. commercial interests. We recognize further that **staffing in TDA will have to be increased**, but believe TDA can undertake this increased responsibility without losing its responsiveness and flexibility.

In light of the severely constrained budgetary situation, the business community recognizes that even under a reformed aid program, funds allocated to infrastructure projects cannot match funding directed to that purpose by some of our export competitors, most notably the Japanese. **CEE proposes a total budget for TDA for both windows of \$1 billion**. To ensure that TDA has maximum flexibility, we believe there should be no earmarks. However, for purposes of illustration, the **\$1 billion level might be allocated as follows: \$150 million for feasibility studies, \$150 million for engineering design services, and \$700 million for capital projects**.

With funding of this magnitude devoted to infrastructure projects, significant results can be achieved if used to leverage other available funding to support U.S. participation in these projects.

It should not be the practice of this funding, as has been traditional in AID, to finance a project entirely from U.S. assistance funds. Rather, **TDA should leverage the funds for developmentally sound projects to maximize their benefit for U.S. exports**, both in terms of assembling the financing for the project so that it can go forward and in terms of maximizing the U.S. goods and services employed in the project. Moreover, **the program needs to be demand driven like the existing TDA program, rather than selected by the government agency, as is often the case with AID**.

Let me give one example. Several years ago AID contributed \$190 million to a \$800 million power project in Egypt. With those funds a prominent U.S. firm was selected as project manager. Their presence encouraged the Egyptians to award other parts of the project to U.S. firms with the result that the project generated about \$500 million in U.S. exports. As importantly, the American project manager also played a critical role in assisting the Egyptian government assemble the rest of the financing package so that the project itself could go forward. So certainly **infrastructure funding, properly managed, can generate many times in U.S. exports the amount of the assistance funds allocated to these projects**. And as importantly, this funding can assist the financial packaging of these developmental projects so that they can move from the drawing board to providing the benefits so needed by the developing world.

Mr. Chairman, you are to be congratulated on undertaking this effort to consider reforms to the U.S. foreign aid program. It has long been an important element in American foreign policy, but one that is increasingly out of balance. **To underscore one fundamental point—economic, humanitarian and strategic considerations are indeed compatible. They form the basis of every other significant aid program but ours—to the severe detriment of U.S. international economic interests. We can construct an economic assistance program that redresses the present imbalance and assists U.S. workers and high value-added jobs in the United States as we assist our new trading partners to develop. Reallocation of resources to allow for increased infrastructure funding will be a major step in that direction. On behalf of CEE, thank you for the opportunity to testify before you today.**

Senator SARBANES. Well, thank you all very much. I have just a couple questions I want to put in.

First of all, Dr. Ensign, what do you say to this point that other countries have a capital projects component built into their aid program, in some instances in very substantial percentages compared to what we do?

Dr. ENSIGN. There is no question that other countries' aid programs are more oriented toward capital projects, but I think there are a few things we have to keep in mind.

First of all, capital projects are very expensive. So if the aid program goes in this direction, then you do have to reallocate funds, and the aid pie is not growing.

Second, capital projects go primarily to middle income countries, therefore cutting out the poorer countries. That is something also that has to be kept in mind.

And third, the big money for capital projects——

Senator SARBANES. Well, let me interject right there. Let us assume you take care of the low income countries in some other way.

That is a big assumption, I realize, and I appreciate your point about pulling resources away, but let us assume that is done. In the more middle income countries, do you see a problem then connected with a capital projects component or emphasis?

Dr. ENSIGN. The problem I see is tying our assistance to capital projects. I think that is the problem. We have tried and have finally succeeded over a period of many years in getting other government aid programs, particularly the Japanese, who are now the largest donor in foreign assistance, to begin untying their programs. I think this is the wrong time then——

Senator SARBANES. But we are being told that over half the Japanese aid program is in support of capital projects. Is that not right?

Dr. ENSIGN. I think it is about 39 percent is in capital projects. They do have the largest percentage in capital projects of any of the donors.

The point I am trying to make is that I do not believe that capital projects assistance for any donors should be tied directly to exports. The greatest good is to keep pushing for open procurement, which is what we have been doing for the last ten years. Then that allows——

Senator SARBANES. Are these other countries doing open procurement?

Dr. ENSIGN. Well, there are very valid criticisms that can be made of other countries, particularly the Japanese in the past, and I laid them out, I believe, pretty strongly in my book.

For the first time, I have seen that the Japanese are moving in this direction. They are moving more toward open procurement.

For the very first time, there are Americans being allowed on their feasibility studies that go out, and it is the feasibility studies where these projects are locked in. Because the designs for these projects are made then, the specs are made, and if you have Japanese contractors doing it, then definitely you are going to have a tied project.

For the first time, there is movement there, and I really believe that their program is opening up. And I think that is what we should be striving for, that all countries have open procurement processes, so that the recipient countries can choose the best products. And let us hope those are American products.

Senator SARBANES. If you are not living in that world and if you are a great distance away from achieving it, then you are at a real disadvantage, are you not? Suppose you say, "Well, the Japanese now, instead of having 48 percent of it in capital projects, are down to 39 percent."

And then you say, "Well, what is the U.S. percentage?"

Well, we have been told here today—I have not checked the figures—that we are under 10 percent. That is a very large gap.

Dr. ENSIGN. I believe we moved away from capital projects for some of the reasons that I outlined. They simply had not worked. There were other priorities that arose. The extent of poverty that

was recognized in the 1970's led to an entire shift in the U.S. foreign assistance program more toward basic needs.

And I think that there is a tradeoff you are talking about here. The U.S. foreign aid program, as far as I have seen, is not going to be growing. That budget is not going to be growing.

If you move more toward capital projects, which are very expensive, and tie them, then there are other things that have to go by the wayside. So there are decisions that would have to be made and priorities chosen.

Mr. O'LEARY. Mr. Chairman?

Senator SARBANES. Yes.

Mr. O'LEARY. Can I interject?

Senator SARBANES. Sure.

Mr. O'LEARY. I think somehow there is a misconception. When people talk about capital projects, they visualize some dam somewhere that is bigger than all outdoors.

I happen to have some personal insights into a USAID-supported project, a very poor African country, which indeed involved a capital project, a very minuscule one, which is out of the Minnesota International Health Volunteers.

We went in there, did not just hand out medicines and deliver medical services, but built a medical facility, equipped it in an appropriate way, got the people in to train the local population to deliver the kind of on-the-ground services that were required, and then monitored them in the phase out.

Those are the kind of integrated balanced projects which give people something to build on after you have spent the money, and that is the sort of thing we are advocating. Sometimes they are small, sometime they are a little more high tech, like a telecommunications.

Mr. HARDY. Senator, if I could comment? I believe there is some confusion about the concept of tied aid. USAID assistance is all tied at this point unless there is a waiver.

There is a waiver process within the organization by which exceptions can be made. But USAID at this point is 100 percent tied, and I do not believe that there is any intent on the part of this legislation or by the administration to pursue a policy of open procurement. So I think that there is some confusion here.

A second issue regards the question of expense of capital projects. We understand and agree completely that a full-fledged capital projects program that 100 percent financed capital projects would be prohibitively expensive.

We do believe that there are, though, very meaningful ways in which cost sharing, tied with some aid assistance from a capital projects program in the U.S. Government, can reap very significant benefits for American firms, while at the same time pursuing solid and sound developmental objectives in the host countries.

The issue with regard to middle income countries I think is a very good one. It is really a question in part of where the U.S.'s national interest lies.

In an open trade system, it is important that the United States be able to establish a strong and trading relationships with these middle income developing countries.

We have historically had a development assistance program in which we have turned around and walked away from these countries at precisely the time that other countries have moved in to establish their trading relationships.

It may, on the one hand, have made some developmental sense, but from a national interest perspective and the perspective of U.S. jobs and U.S. exports overseas, it is a program that has not made much sense, in the least.

The "new directions" legislation of the early 1970's was indeed a move away from capital projects toward basic human needs. I guess the question in my mind is whether the situation then that the United States was confronted with internationally, in terms of our competitiveness, is the same now as it was then.

I think it is clearly not. I think that the abusive perhaps practices where "white elephant" projects were developed in the 1960's and 1970's where there were indeed problems—there were problems in the World Bank and in other places—this is long in the past and not a situation which is going to happen now.

The "white elephants" are not the type of projects that we are talking about now. We are talking about water and sewerage systems. We are talking about telecommunications systems.

We are talking about projects which are fundamental to the development objectives of these countries, projects in which they are interested, in which they are taking the lead in seeking assistance from us and seeking our technology. When U.S. business seeks to compete for these, we are confronted with programs from other countries which have basically acquired these projects through their assistance programs and cut American firms and American technology out of the loop and reduced the opportunities for U.S. jobs and U.S. exports.

These are not projects which are tied for exports. They are developmental projects in which U.S. firms are interested in participating and which are fundamental to the interests of the developing countries. Thank you.

Senator SARBANES. Well, if AID has moved in the new directions and if they put a small percentage into capital projects, one approach is to try to force AID to do more capital projects.

Another approach would be to say, well, AID is meeting a need that needs to be met. But what we need to do is beef up or strengthen other agencies that are more directly involved in these activities. The EXIM Bank is one example.

The Trade and Development Agency would be another, which I think you mentioned in your testimony, Mr. O'Leary, as I recall. So that they take on a more active role.

And, in fact, the very point you made that we tend to withdraw from development when the country reaches a certain stage, but then we do not have any sort of follow up that picks up at the next stage. Now these other countries may have a more integrated approach.

Mr. O'LEARY. Very much so.

Senator SARBANES. And a lot of them, I guess, are less sensitive toward the underdeveloped countries? I mean, they have less of the human development commitment. I know the Scandinavians have

that, but I think these commercial competitors do not. Is that correct?

Mr. O'LEARY. I think that is right, although that is changing. I mean, the Japanese are in a situation where they are much the way we were, say, in the early 1970's. They have the largest program in the world, and they can afford to move more into the basic human needs area.

I think as Senators Boren and Lieberman said earlier, it is really a question of reasonable balance. It is not a question—we certainly do not want to be in a position of saying there is a direct tradeoff here.

We do not believe that that is the case. We believe that there is adequate funding within AID that is not directly targeted at basic human needs right now, that is going into other areas.

We believe that in areas such as the Russian aid programs, it is indeed possible to carve out a capital projects program without undermining the existing basic human needs or development of pure developmental programs, and that indeed a much more reasonable balance can be struck.

Senator SARBANES. OK.

Mr. O'LEARY. Mr. Chairman, your point on let us call it focusing USAID on different aspects, one of our criticisms of the current draft is that it does not make clear that USAID is being integrated into a comprehensive look at these kinds of problems.

It is strangely silent about AID's integration into, for example, the TPCC effort. And it is the failure to have woven the whole cloth, if you will, which leaves the questions open.

Certainly one could put together a framework in which AID specialized in a given kind of thing, call it human needs, whatever you want to call it, and someone else picked up the rest of that program. But somebody has to manage it. Someone has to pull it together, and this proposed legislation does not get that done, in our judgment.

Senator SARBANES. OK. Thank you.

Senator KASSEBAUM. Oh, I think that last point is a good point. The TPCC is just up and going. I think it holds great promise. We still really do not know, and I think that AID is always not sure where they should be.

I think that is where again, when you talk about the multilateral or bilateral work, deciding where AID fits in. When we go back to the larger development projects that were once undertaken, say in sub-Saharan Africa, it became a big debate on whether we should be engaged in helping with roads or now telecommunications. As I have tended to believe these were very important components of any other type of sustainable development.

But that has been a debate that has raged back and forth over the years. You get started in one direction for a few years and then you switch and you start another direction for a few years.

I hope that the Trade Promotion Coordinating Council will be able to sustain itself over a long enough period of time that we can be able to make it work, because I think the concept is a good one.

The multilateral development banks are, of course, the biggest funders of capital projects. From your analysis, are American com-

panies competing successfully at the World Bank? What is your review of that? I mean, this is where big capital projects are funded.

Mr. HARDY. If I could speak to that. Indeed, I think that the U.S. procurement levels and U.S. participation in World Bank projects or the regional development bank projects are probably higher than those of any other country overall, although at the different regional banks, there is quite a variation.

I think in the Asian development bank, indeed the Japanese may now have higher procurement. But there is no question that U.S. firms are very substantial players in that market.

I think, though, there is an increasing dilemma for American firms. This is an issue that has been addressed with the World Bank—and the bank is struggling with it—and that is the issue of quality versus cost.

Certainly, American firms are not going to be low cost suppliers in comparison to foreign engineers. I mean, there are a lot of very good third world engineering firms, construction companies.

There are areas in which the United States is extremely competitive in terms of the procurement of equipment. But there is an overriding or overarching issue that is developing that the bank is very concerned about in terms of the quality of the projects that are being paid for and developed by the bank. There were references to that earlier.

From the perspective of American firms, from the experience of Brown and Root, my own firm, we have a dilemma in that from our experience in the U.S. market, quality is the overriding consideration.

When you move into the World Bank market, you are moving into a situation where low cost becomes the ultimate determinant of selection. It is a dilemma. As I said, we have talked to the bank about it. The bank is struggling with that issue.

It is a situation in which a great many American firms have effectively left that market. Indeed, we have in large part left that market, because it simply makes no sense to compete, even though we believe from a quality perspective it is an area where the bank frankly needs desperately that American program management experience, or the experience of other very large construction companies around the world, not just exclusively American. They have all left that market.

We have had a coalition that has held discussions with the bank over this issue but has not come close to resolving it.

Mr. O'LEARY. Senator, you touched on an issue which I think is fundamental. The great problem we have is that we are not managing all these assets that we have out there. I mean, I am not criticizing anybody when I say that.

It is just that they have to a degree grown like topsy against objectives which were relevant in the 1950's, 1960's, and 1970's, which just are not relevant today.

What we have been urging and would strongly advocate—and I think the administration is making an effort. Nobody is going to get there overnight. As you said, school is still out on the TPCC. It looks like it is making nice progress.

But we need to pull together all of these assets that treat with these same common areas and say, "Here are our objectives."

And once we have our objectives stated, then you start lining up the assets you have available to deal with them and make sure that they are coordinated.

Senator KASSEBAUM. As Dr. Ensign pointed out, GAO says there are ten different agencies that are really working with trade promotions, trying to help lay out assets, I suppose, in how to be useful to companies that are wanting to bid on projects abroad.

I just may, Mr. Chairman, because Dr. Ensign has done a lot of work on the so-called white elephants.

Could you just give one example of a white elephant and why, perhaps, it started out as a good project and became a white elephant?

Dr. ENSIGN. I cannot think of a specific example, but I think one of the major problems is something that was pointed out here, that many capital projects do not have ongoing training and maintenance as a part of it.

I think that is a critical element that has to be there for those projects to be sustainable and long lasting in the recipient countries.

Mr. O'LEARY. Doctor, would you not agree that is true of a lot of our programs, even the wholly soft ones, if you put it in software and hardware terms?

Dr. ENSIGN. That's true.

Mr. O'LEARY. I mean, we are guilty of mismanagement in a lot of areas because we do not finish it. I think what everyone is saying is we have to find a better way to manage a finite amount of resources, which are not going to grow.

Dr. ENSIGN. And may I just make one final comment? I think it is critically important that you have to be in the field to continue the maintenance and training, and I believe the new reorganization of AID is moving from a field presence to a Washington-based presence.

I think that is AID's comparative advantage. Unlike the World Bank, unlike the multilateral development banks, there are people in the field who understand the countries and have that knowledge and can continue these programs. And I think it is a mistake to begin pulling AID back and centralizing many of the functions in Washington.

Senator KASSEBAUM. Thank you very much. Some interesting comments.

Senator SARBANES. Yes. We very much appreciate the contribution of this panel. We thank you very much. [Pause.]

Our final panel this afternoon is made up of Mr. Bruce Rich, Chairman of the International Program, Environmental Defense Fund; Mr. David Reed, Director of the International Institutions Policy Program at the World Wildlife Fund; and the Hon. Tom Dawson, currently the First Vice-President of Merrill Lynch and formerly the U.S. Executive Director at the IMF and before that Deputy Assistant Secretary of the Treasury for Developing Nations.

Gentlemen, I know this has been a long afternoon for you, and we appreciate your patience and your willingness to be with us today. And we would be happy to hear from you.

The written testimony will be included in the record, and if you could summarize, of course that would be very helpful.

I think, Mr. Rich, we will start with you and then go to Mr. Reed and then we will close out with Mr. Dawson.

**STATEMENT OF BRUCE M. RICH, INTERNATIONAL PROGRAM,
ENVIRONMENTAL DEFENSE FUND**

Mr. RICH. Thank you, Mr. Chairman and Senator.

I appreciate the opportunity to testify this afternoon before the Foreign Relations Subcommittee on International Economic Policy.

I am testifying not just on behalf of the Environmental Defense Fund, but also on behalf of four other national environmental organizations with more than 6 million members and supporters nationwide.

I realize my statement is bit a lengthy, but the essence is contained in the first four pages in summary. I would like to begin first of all with praise where praise is due, and that is for the efforts of the administration and the Treasury Department and the executive director's offices of the multilateral banks for their efforts over the past year in trying to promote institutional reforms to make the multilateral development banks more environmentally responsible, more accountable and transparent, and to emphasize more quality in lending over quantity in lending.

I would say that if you boil everything down, the fundamental problem in these institutions is that they are driven largely by pressure to lend that often preempts all considerations of project quality. There is lots and lots of evidence for that, and I could discuss that later.

I would also note, however, that there have been congressional hearings on this subject, the environmental quality of MDB lending and other issues for a decade.

There has been legislation since 1986 directing the U.S. executive directors in these institutions to promote energy efficiency, greater transparency, more freedom of access to information and so on. And frankly, the record is largely failing.

I think the best summary of the current status of the environmental performance of the MDB's was given by the Vice President just two nights ago in a speech before parliamentarians from several countries who were here in Washington.

He said, "Many of the multilateral banks have developed new policies in the areas of forestry, energy and public participation in decision making."

But to date, implementation has fallen woefully short.

And he noted, and we agree with this, of course, "In view of the poor performance, we have to ensure that these institutions are part of the solution rather than a continuing part of the problem."

The one message that we would like to leave with you is: This year, do not write a blank check for \$2 billion for these institutions. One can discuss the details later. We have set out some examples, some suggestions, in our longer statement.

But perhaps to link these authorizations and release of the money with achieving specific benchmarks of improvement in project quality, greater transparency, and accountability, and changes in certain lending sectors, for example, finally doing more for end use efficiency and the demand side management sector.

For the individual banks, the World Bank situation is particularly disturbing because of its importance and its perceived lead role in a number of key sectors, such as energy.

The record has actually gotten worse in the past few years in this important area of demand-side management and use efficiency investments. That is an area where economic efficiency and environmental sustainability are friends, and it is very disturbing that the bank is not doing a better job.

The second area, forcible resettlement of poor people. World Bank projects are currently forcibly resettling two million people around the world through infrastructure projects.

Projects in the pipeline to be approved for 1996 will displace another two million people. The bank has had a policy on this issue since 1980. It simply requires a minimum of human decency: If people are going to be displaced through a World Bank loan for a project, the borrower has to prepare a plan so that at least they are no worse off than before.

The bank is now conducting its third study in a decade, looking at this situation. They cannot find a single project where for any of these millions of people, there is evidence that they have not been made worse off. I think this is serious and something has to be done.

The Inter-American Development Bank, I think, is a bright spot in this picture. It is funding projects which are doing the right thing. In the Amazon, for example, it shows that in some cases these banks can do the right thing.

I would like to point out that the environmental performance of the multilateral banks has broader foreign policy implications.

For example, it is a key issue with respect to our carrying out our commitments under the convention signed at Rio, the climate convention and the biodiversity convention.

The \$45 billion in annual multilateral bank lending obviously has a much greater impact on global warming and biodiversity, currently for the worse, hopefully for the better in future years than the \$2 billion the global environment facility will disburse over the next several years.

There are also other issues which I have touched upon; one, the International Monetary Fund. There was legislation enacted in 1989, as well as in 1992, prodding the IMF to take some modest measures in the areas of environment and attention to poverty. The fund has done very little. We would say virtually nothing in terms of substance.

Another issue we would like to address—Mr. Dawson mentions this in his testimony from his experience of the IMF—is linked with the multilateral nature of these institutions: the United States can promote measures, but the other countries are not on board.

Obviously, nothing moves. It is for that very reason that we would hope that the administration would take more vigorous efforts to promote, through the form of the G-7 and OECD, cooperation with the major donors to have a coordinated policy in making these institutions sustainable.

One last area is the area of the export credit agencies, the U.S. Export-Import Bank, and other export credit agencies in the industrial countries.

It does not make much sense to talk about sustainability for USAID for the multilateral banks when these export credit agencies are lending tens of billions of dollars a year with relatively low environmental standards.

We have met with Ken Brody, the head of the Export-Import Bank. He agrees with us completely, and of course his point is that there has to be a concerted effort in the G-7 on the export credit agencies, because we cannot alone have higher environmental standards than the other export banks.

I would just like to conclude with one other observation. This is the 50th anniversary year of the Bretton Woods conference. We think there is a need for a closer examination of what is the administration's current de facto strategy of further concentrating scarce foreign aid resources in the Bretton Woods institutions and the multilateral development banks.

We would suggest, at least as a working hypothesis, that in the post-cold war, post-Rio Earth Summit world, we need to encourage greater diversity and competition among alternative economic development institutions and networks, bilateral, multilateral, private sector, nongovernmental, so we can have an international system, particularly with respect to development aid that can address global environmental problems effectively at the local level.

If there is a need to reinvent and to heighten the efficiency of domestic government, surely on this 50th anniversary of Bretton Woods there is an even greater need for a U.S.-led initiative for such an exercise in looking into international institutions.

Thank you very much.

[The prepared statement of Mr. Rich follows:]

PREPARED STATEMENT OF MR. BRUCE M. RICH

1. INTRODUCTION AND SUMMARY

Mr. Chairman, thank you for the opportunity to testify today before the Senate Foreign Relations Subcommittee on International Economic Policy, Trade, Ocean and Environment. I am Bruce M. Rich, Senior Attorney with the Environmental Defense Fund (EDF), and Director of EDF's International Program. I am testifying today behalf of EDF, the National Audubon Society, Friends of the Earth, U.S., the National Wildlife Federation (NWF), and the Sierra Club. EDF is a public interest environmental research and advocacy organization with over 200,000 members nationwide. The National Audubon Society has a national membership of 550,000, and the National Wildlife Federation is the largest conservation organization in the Western world with more than 5 million members. Friends of the Earth has 13,000 members nationwide, and the Sierra Club over 600,000 members and supporters. These colleagues at EDF and Friends of the Earth have assisted in the preparation of this statement: James Barnes, Scott Hajost, Korinna Horta, Mimi Kleiner, Steve Schwartzman, Karan Kapoor, and Todd Goldman.

My statement will address the environmental performance and overall management issues associated with the Administration's FY 1995 funding requests for the World Bank, the Bank-associated Global Environment Facility (GEF) and other regional multilateral development banks, and the IMF. The Administration is asking for a 33 percent increase in funding for the MDB's, \$2 billion, over last year's actual appropriations of \$1.5 billion. It is asking the Congress to authorize major capital increases for the African Development Bank soft-loan facility (the African Development Fund—AFdF), the Inter-American Development Bank (IDB) and for the GEF, as well as approve a replenishment of the IMF's Enhanced Structural Adjustment Facility. The Asian Development Bank has requested its member governments to negotiate this spring a doubling of its capital resources.

The most succinct summary of the current status of the environmental performance of the MDB's was given by Vice-President Gore just two days ago in a speech before parliamentarians from several countries (Global Legislators for a Balanced Environment—GLOBE) here in Washington: "Many of the multilateral banks have developed new policies in the areas of forestry, energy and public participation in decision making. But to date, implementation has fallen woefully short." He went on to state that "In view of this poor performance, together we must ensure that these institutions are part of the solution, rather than a continuing part of the problem."

The message the national environmental organizations I represent today wish to convey to you in the strongest terms is that the money the Administration is requesting the Congress to authorize and appropriate this year for the MDB's will too often be poorly used, without very significant improvements in the overall management and environmental performance of these institutions. We would suggest that the overall poor environmental performance of these institutions may be only a leading indicator of deeper and more widespread management and project quality problems.

We wish to emphasize that the environmental performance of the MDB's is a key issue with respect to carrying out our commitments to reduce global warming and protect biodiversity in the conventions signed at Rio. The \$45 billion in annual MDB lending has a much greater impact on global warming and biodiversity—currently for the worse, hopefully in the future for the better—than the two billion dollars the Global Environment Facility will disburse over the next 3 years.

In this regard, the case of the World Bank and associated GEF is particularly important, because of the leadership role that institution is perceived to have. Events over the past two years reveal a long building, serious breakdown of accountability and responsibility at the highest levels in the Bank, despite belated, ineffectual steps of management to respond to increasing international pressures for greater transparency and improvements in project quality. There are differences in performance among the other MDB's: the IDB deserves praise for being more innovative, and going farther than any of the other institutions in several of its projects to promote the local involvement and accountability necessary for truly sustainable development. We are worried, however, about proposed organizational changes in the IDB which would weaken the role of that institution's Environmental Management Committee and environmental staff. The African Development Bank suffers from the most serious management problems and inability to deliver on its environmental commitments, and major reforms are needed in the Asian Development Bank.

Mr. Chairman, we commend the Administration and particularly the Treasury Department and the U.S. Executive Directors' offices in the MDBs for their many intensive efforts to promote environmental responsibility in the multilateral banks. Such efforts include numerous interventions to attempt to change environmentally damaging loan proposals, systematic efforts to promote new information policies and reviews of portfolio performance at the regional MDB's and efforts to promote the creation of independent inspection panels at the World Bank and other MDB's. But we would submit that these efforts notwithstanding, there is growing evidence that the MDB's and particularly the World Bank are not succeeding for the most part in making their lending environmentally sustainable. We believe that it would be a wiser use of taxpayers' money *not* to concentrate resources so intensively on the World Bank and other MDB's, with their disturbing record of declining project quality and demonstrated management problems, but rather to also encourage and support a diversity of alternative development institutions and channels for foreign assistance, ones that would have a better chance of helping the poor and helping the global environment. There are several institutions supported by the U.S. that we believe are very cost-effective in promoting environmental sustainability and social equity. Their approach is worthy of increased support and wider replication. These agencies—the Inter-American and African Development Foundations, and Appropriate Technology International—do not finance large government bureaucracies, but have a mandate to assist community groups, nongovernmental organizations and smaller businesses and enterprises.

We also recognize that although the charters of the MDB's require them to lend principally for specific projects, this project lending has become driven in many cases by shorter-term needs for balance of payments support for vulnerable economies. Thus, alternatives to help the macroeconomic crisis of the poorest nations, particularly sub-Saharan Africa, should be found before reducing MDB lending for these economies. We believe, however, that the best way to help these countries over the middle term is not through continuing to use MDB project and adjustment lending for balance of payments support, which often contradicts the need for project quality that is at the heart of the mission of these institutions.

Rather, increased debt relief—for example by adopting the so-called Trinidad Terms—and fairer terms of trade will do more to help the poorer nations than using MDB loans to fill what is essentially a bottomless financial hole. According to the United Nations Development Program, fairer trade would spur \$60 billion in increased annual financial flows from the North to the South, and debt forgiveness another \$50 billion annually. I would note that of the \$2 billion the Administration is requesting for the public international financial institutions, only \$7 million is for debt relief under the so-called enhanced Toronto Terms. We would suggest that without increasing the general levels of funding for multilateral assistance, more funds could be allotted for debt relief for the poorest nations and less for increases in MDB replenishment. The current approach is perversely increasing the debt burden of the most vulnerable nations—at the expense of U.S. and other donor country taxpayers—without sufficiently addressing the external economic conditions that are in significant part responsible for the chronic financial difficulties of these economies. We would also suggest that further exploration of these issues through oversight hearings and possible legislation, including consideration of using a portion of the World Bank's \$18.5 billion in liquid reserves and the IMF's billions in gold reserves to reduce the multilateral debt of the weakest and poorest developing nations.

If the MDB's are to fulfill their purported mission of helping the poor and promoting environmentally sustainable economic development, the profound institutional forces that make pressure to lend and moving money their first priority must be reversed. If the World Bank and other MDB's were to truly focus on project quality, with full public consultation, participation, and access to information, there would be fewer loans, and smaller but better ones. They would be more modest institutions, but ones that might be able to make a real difference through example.

It also is important to remember that the Congress has passed legislation directing the Treasury Department to promote environmental reforms in the MDB's—for example greater emphasis on end-use efficiency in the energy sector, and greater transparency and public participation—MDB's for nearly a decade—with relatively little to show. With respect to the IMF, Congress enacted legislation in 1989 and 1992 calling upon Treasury to promote a number of modest reforms in the Fund to address environmental and poverty issues—and there has been virtually no action by the Fund.

In short, we urge you not to write a blank check for \$2 billion to these institutions—not after a decade-long record of Congressional hearings, legislation, and broken promises. We recommend, therefore, that for FY 1995 the Congress not authorize the GEF and MDB capital increases that are being proposed until these institutions show that they have carried out a number of fundamental reforms discussed in detail later. Since all of the new replenishment—for the GEF, AfDB, and IDB are still being negotiated, vigorous actions by Treasury and more responsiveness by the MDB's might conceivably forestall any delays. Alternatively, on a case-by-case basis, release of funds from the authorizations could be conditioned on Treasury certifying that certain benchmarks have been met. The heart of needed reforms lies in major institutional changes to make project quality, not pushing money, the overarching priority of the World Bank and other MDB's, and reforms to ensure independent review of MDB projects, public access to most MDB documents, and greater responsiveness and accountability to local populations affected by MDB projects. Given the particularly disturbing record of the World Bank, we suggest that for FY 1995 that the Foreign Relations Committee recommend to the Appropriations Committee that cut a portion of authorized funding for the Bank's hard loan window, the IBRD. We believe this will be the most effective spur to reforms at the Bank.

In the case of the GEF, we believe it would be a mistake for the U.S. to commit funds for major projects before the GEF has completed Congressionally mandated restructuring and reforms enacted in legislation over the past two years. It is important that smaller amounts for the GEF be authorized and appropriated quickly, to fund more limited activities related to the immediate implementation of the Climate and Biodiversity Conventions, such as developing country planning and reporting requirements, capacity building and developing country travel.

We believe authorization of more money for the IMF ESAF should be linked to concrete evidence of significant progress by the Fund in acting on the Congressionally mandated reforms of 1989 and 1992.

Given the tremendous financial and policy leverage of the international financial institutions, we also believe that management and environmental reforms need to be promoted through the G-7 process and through the OECD as well as before the Executive Boards of these institutions.

The U.S. also needs to direct our representatives to the MDB's to institute and implement binding policies to evaluate and take into account in loan preparation the effects of each project on global climate change, particularly in the energy and transportation sectors. I would note that the most recent meeting of the Intergovernmental Negotiation Committee on Climate Change in Geneva there was consensus amount developing and industrialized countries on the need to set up a permanent system to monitor the climate impacts of MDB lending and policies so as to ensure that these financial flows support activities consistent with the objectives of the Climate Convention.

There is also a critical need to promote enhanced environmental standards in the U.S. Export-Import Bank and, through cooperation in the G-7 and OECD, in the export credit agencies of other major industrialized countries. It makes little sense to be promoting enhanced environmental responsibility in the MDB's when export promotion banks are lending tens of billions annually with little attention to the same concerns. Representatives of some of our groups met recently with Ken Brody, head of the Exim-Bank, and we were encouraged by his concurrence, and indeed commitment on this point as well as by the interest that has been expressed by other Administration officials. But the attention and encouragement of the Foreign Relations Committee would help push this effort along.

Finally, we would also suggest the need for a closer examination of the Administration's current strategy of further concentrating foreign aid resources in the Bretton Woods institutions and multilateral development banks. In the post-cold war, post-Rio Earth Summit world we need to encourage greater diversity and competition among alternative economic development institutions and networks, to create a more flexible and responsive international system, one that can deal with global environmental and economic problems at the local level. Our view is that U.S. policy should be promoting a greater diversity of institutions and approaches—bilateral, nongovernmental and in the private sector—to deal with global environmental and developmental issues, and use its financial leverage to prompt institutional reform in multilateral organizations to make them more transparent, accountable, and flexible. If there is a need to reinvent and to heighten the efficiency of domestic government, we would argue that in this 50th anniversary year of Bretton Woods there is surely an even greater need for a U.S. led initiative for such an exercise in the international sphere.

The remainder of this statement discusses in detail, with specific recommendations, our evaluation and criticism of the environmental performance of the World Bank, GEF and three regional development banks.

II. THE WORLD BANK

Every year since 1985 the Congress has enacted legislation instructing the Treasury Department to promote key environmental reforms in the World Bank and the three regional multilateral development banks. In the case of the World Bank, it has ceased financing a few of its most environmentally destructive programs, such as gigantic colonization projects in tropical forests, and, with much fanfare, greatly increased its environmental staffing several years ago, and is constantly promulgating new environmental policies—though the first ones date back well over a decade. It is expanding financing of projects it claims are environmentally beneficial. On a small scale, compared to the main body of its lending, it is supporting national environmental ministries and funding protected areas. But, alas, many of the larger scale "environmental" projects, for example in the forestry sector, have turned out to be the same old unsustainable schemes doused with a new coat of green paint. Finally, last year about 13 percent of Bank lending went for programs in education, health and population. Some of these loans undoubtedly reflect the typical problems of Bank projects, that is inefficiency and inappropriateness linked to trying to push too much money too quickly through weak developing country bureaucracies. But lending for these purposes is something we can all support, if it is done effectively.

But this is an institution with an outstanding loan portfolio of over \$140 billion, and, overall, Mr. Chairman, over the past several years the Bank's record has been a disaster. The record has worsened—and not just in the environmental area. Four years ago when the World Bank asked the industrialized nations for the ninth multibillion dollar replenishment of the International Development Association, it promised its donors to support environmentally sound projects, alleviate poverty, to "expand its efforts in end-use energy efficiencies and renewable energy programs and to encourage least-cost planning in borrower countries" and ensure greater public access to information and promote public participation.

The Bank's promises proved mostly worthless; it continues to finance numerous schemes that are documented environmental and social failures, and to withhold most information on its activities.

Perhaps the most scandalous aspect of all in the Bank's record is its gross negligence in ensuring that its borrowers rehabilitate the more than two million poor who currently are being forcibly relocated by Bank-financed infrastructure projects. Projects approved this year alone will involuntarily resettle another 600,000 people, and loans approved through 1996 are estimated to uproot without adequate compensation more than two million more of this planet's poorest and most powerless human beings. In several of its major lending regions—Latin America and Africa, for example—recent internal Bank surveys cannot find a single project where displaced populations have not been made worse off than before. And yet the Bank cites poverty alleviation as its "overarching objective" to justify before the parliaments of its donors requests for more taxpayer support.

The Congress has required the Treasury Department to promote greater attention to end-use efficiency and conservation in Bank lending since late 1985. Energy is the Bank's second most important lending sector, and, in the light of concerns over global warming the need for alternative investments in end-use efficiency and conservation has never been greater. Yet a USAID financed study found that Bank support for end-use efficiency and conservation actually *decreased* in the late 1980's and early 1990's. A study prepared by EDF and the Natural Resources Defense Council examined new Bank power loans in preparation, so as to evaluate the worth of new Bank policies issued last year espousing greater commitment to supporting demand-side management and end-use efficiency in Bank power projects. Our findings, released last month, are that of 46 power loans totalling over \$7 billion that are in preparation for 33 nations, only *two* reflect the commitments of these new policies, and only three others significantly support end-use efficiency and demand-side management.

One response of Bank management to this critique is that the policies—prepared at considerable expense and with great public relations fanfare—are not mandatory, only hortatory.

I would like to discuss for the record a bit more about the Bank's resettlement record and energy lending, and then address the Bank's ongoing response to two unprecedented reports completed in 1992 that reveal an institution almost totally dominated by the pressure to lend, to the detriment of all sense of direction, accountability and responsibility. I will then address the credibility of two recent reforms the Bank announced late last year in response to growing dissatisfaction in the Congress and in the governments of other nations with its management: a new information policy, and the creation of an independent inspection panel. This section will also discuss for the record our concerns about the Bank's approach to the inter-related issues of structural adjustment, poverty, and the environment, and conclude with several recommendations.

A. Forced Resettlement of the Poor.—There is no other issue that so exposes the systematic operational failure of the World Bank than its record on resettlement and rehabilitation of populations forcibly displaced by Bank-financed projects. It goes to the heart of its credibility and ability to police itself.

Over the past decade three separate, Bank-wide internal studies have documented the failure of Bank management to carry out the resettlement policy, with no effective action by management: the 1979–1983 Bank-wide Resettlement Review, the 1986 Bank-Wide Resettlement Review (covering 1979–1986), and the June 30, 1993 Operations Evaluation Department study of "Early Experience with Involuntary Resettlement." Meanwhile, the number of people forcibly resettled from ongoing Bank projects, has increased from 450,000 in 1983 to over 2,000,000 in 1994, and over 2,000,000 more will be displaced by projects slated to be approved through 1996. In India alone the number of people being forcibly resettled by ongoing Bank projects in India totals over 800,000.

In fact, 14 percent of total IBRD/IDA lending is currently financing projects that forcibly resettle the local poor.

The Bank's policy on resettlement and rehabilitation of displaced people—now Operational Directive 4.35 (it may be reissued as a more general, less binding Operational Policy—see discussion below on the Bank's response to the Wapenhans report)—dates back to 1980 and is one of the Bank's oldest and most important social and environmental policies. It requires simply the minimum of human decency: that a borrowing government prepare before project appraisal is completed, with the consultation and approval of the affected population, a resettlement and rehabilitation plan that at least will put the affected population in an economic situation that is no worse, and hopefully actually improve their welfare. Strict monitoring of government implementation of the plan by the Bank is essential for its success.

The latest, June, 1993 report of the Bank's Operations Evaluation Department (OED) discovered total negligence on the part of Bank management: implementation of the policy has been lax or nonexistent, and indeed Bank staff and management have not even bothered to collect basic data on the fate of the millions of poor its schemes have displaced over the past 13 years: information even on the incomes of the forcibly resettled is simply lacking for most Bank schemes involving displacement. A substantial proportion—about 40 percent—of the projects reviewed in this report were approved after 1980 when the Bank's resettlement policies were in force and should have been adhered to. With some understatement, the report concludes: "Have Bank guidelines helped to improve resettlement results and outcome? Only very general judgments on satisfactory or unsatisfactory outcome can be made since few projects have any data on incomes [of forcibly resettled people] * * * Bank guidelines have not led to improved monitoring efforts which would permit an assessment on resettlement outcome * * * This is a serious lacuna since it gives rise to an impression that the Bank is not seriously interested in the achievement of this objective."

Internal Bank studies of recent regional performance shows an equally disturbing picture. According to OED, a 1990 review of Bank resettlement projects for the Latin America region "was unable to find a single study of a Bank-financed project in Latin America which quantitatively demonstrated that a resettlement policy had been adequately rehabilitated in terms of income, health or other social welfare measures." A 1992 internal study of Bank financed forcible resettlement in Africa concluded "it was impossible to measure the impact of resettlement" due to completely inadequate or nonexistent information gathering on resettlement impacts, and inadequate or nonexistent monitoring and funding resettlement components when they were identified in some form."

The Bank is currently undertaking a review of its projects with involuntary resettlement components—the fourth such exercise in little more than a decade. This review was one of the actions Bank management pledged to the Executive Directors (at their express request) to undertake in the aftermath of the controversy over the Bank-financed Sardar Sarovar dam in India. ?? completed review report, with a plan for corrective actions, is to be presented to the Board of Executive Directors for approval in March, with a Board Meeting to discuss prospective actions on April 15, 1994.

We strongly urge the Subcommittee to ask the Treasury Department to raise the following demands before the Bank's management and with other major donor countries on its Board:

1. *The Bank should make the Bank-Wide Resettlement Review, as well as the India and China country resettlement studies, publicly available in draft form* so that NGO's and affected peoples and communities can have input before the document is presented for approval to the Executive Board.

2. The U.S. should demand what measures the Bank plans to take, and to inform the public of, concerning *retroactive measures to economically rehabilitate those already impoverished* through negligence of the Bank's resettlement policy in previous Bank projects; a list of all such projects be made public, together with details on what is currently known about the situation of the people who have been displaced.

3. The Bank should give a specific response on how it will *hold Bank staff and management accountable and responsible* for not complying with the Bank's guidelines on resettlement.

4. The Bank should put a *moratorium on the preparation of all projects that will entail forced resettlement*, until there is hard evidence that alternatives to avoid resettlement have been examined, economic rehabilitation measures for populations that would be displaced are fully developed in consultation with the communities affected, and monitoring systems are installed to ensure compliance with Bank guidelines.

B. Energy Inefficiency.—Energy supply is the most capital intensive sector in developing countries, accounting for between one quarter and one third of all public investment—and diverting desperately scarce capital from other investments such as health, education and conservation. Indeed, according to a 1990 World Bank Energy Department paper, "estimates suggest that if 20 percent of commercial energy in developing countries were saved, total gross savings for developing countries would amount to about U.S. \$30 billion per annum or about 7.5 percent of the total value of merchandise imports. *This is about 60 percent of the net flow of resources out of developing countries for debt service in 1988, and about two-thirds of the official development assistance from OECD and OPEC countries in 1987.*"

Yet, in late 1991 a comprehensive, EPA financed review of the Bank's energy lending by the Washington based International Institute for Energy Conservation concluded that the Bank was devoting less than one percent of its energy lending to end use efficiency aid conservation investments, and that the proportion actually decreased slightly in the late 1980's.

In early 1993, the Bank issued a new energy efficiency policy paper and a new power policy paper in early 1993 in which it claimed that it would "be more selective in lending to energy-supply enterprises" and that "approaches for addressing demand-side management (DSM) and end-use energy intermediation issue will be identified, supported, and given high-level in-country visibility."¹ But these policy papers lack specific commitments for actually increasing lending for end-use efficiency lending—which, according to the Bank's 1991 energy sector review will account for only 1 percent of Bank energy lending for the period 1992–1995.

Indeed, as mentioned above, a recently released EDF-NRDC study of 46 power loans totalling over \$7 billion currently being prepared by the World Bank for 33 countries, found only five that significantly support improved end-use energy efficiency, and only two that actually comply with the Bank's own policy papers on energy efficiency and power.

Once again we see an all too typical pattern: the Bank churns out vague, new policy commitments in response to public pressure, while the Bank's lending operations continue mostly unchanged.

A prime example of the Bank's total, ongoing disregard for demand-side, end-use efficiency alternatives can be seen in a \$400 million IBRD loan Bank management pushed before the Executive Board on the second last day its fiscal year, June 29, 1993 (the height of the "bunching season" when a disproportionate number of loans are presented before the Board for approval to meet lending targets before the close of the financial year). The loan is the first in a series in a on a Bank energy lending sector program for India to add over 16,000 megawatts of new coal-burning capacity over the next decade, with no consideration of end-use efficiency and conservation alternatives. This single lending program will add over 92 million tons of CO₂ a year to the earth's atmosphere, or about 2.5 percent of estimated worldwide increases in CO₂ emissions (a cause of global warming) in the same period. Worse, this loan virtually allots no funds for compensating and rehabilitating over a 140,000 people forcibly resettled (in contravention of Bank resettlement policy) and otherwise adversely affected by previous Bank-financed projects in India in the coal-fired power sector.

The total lack of consideration of demand-side, end-use efficiency alternatives in this lending program and in other Bank energy lending makes the commitments of the world's governments at Rio to reduce unnecessary CO₂ emissions, and the limited funds of the GEF to be allotted for this purpose, a travesty. Indeed, a 1991 USAID study, prepared as part of a World Bank Indian Power Assessment, concluded that if only half the cost-effective end-use efficiency and conservation measures were pursued in the Indian Power Sector through 2004–2005, peak generating requirements would be reduced by 22,000 to 36,000 megawatts at 40 percent of the cost of new generating capacity—saving \$10 to 16 BILLION DOLLARS in capital outlays for new power plants and dams.

Last June 29, the World Bank Executive Directors representing Germany, the United States, Austria and Belgium refused to approve this loan on environmental and economic grounds—in vain.

C. The Morse Commission Report and Recent Events at the India Narmada River Sardar Sarovar Dam.—In the summer of 1992 two independent reports were released that documented the disastrous economic, environmental and social consequences of World Bank mismanagement of its lending portfolio. How the Bank is responded to, and is responding to these findings is an acid test of its trustworthiness both as a development and a financial institution. The first report was published by the so-called Independent Commission on the [India] Sardar Sarovar Projects, headed by Bradford Morse, former U.S. Congressman, U.N. Under Secretary General and head of the United Nations Development Program. The commission was set up by former World Bank President Barber Conable in the waning days of his tenure because of growing international protest over continued Bank funding of the Sardar Sarovar dam on the Narmada River in India.

The first outside, independent assessment of a World Bank project documented a nearly decade long pattern of bureaucratic malfeasance, willful withholding of information from the Bank's management and Board of Directors, and sheer incompetence. The not only confirmed virtually all of the criticisms of NGO's in India and

¹ World Bank, *Energy Efficiency and Conservation in the Developing World* (Washington D.C.: World Bank, January, 1993), 12.

abroad, it revealed a pattern of gross negligence and delinquency on the part of the World Bank and Indian government much worse than anyone imagined.

"There appears to have been an institutional numbness," the report noted, "at the Bank and in India to environmental matters," "a history of omissions, unmet deadlines, and *ex post facto* revisions" that the Commission concluded amounts to "gross delinquency."²

The Morse Commission also charged that the abuses in Sardar Sarovar were not an isolated exception, particularly with respect to mistreatment of hundreds of thousands of forcibly resettled rural poor: "The problems besetting the Sardar Sarovar Projects are more the rule than the exception to resettlement operations supported by the Bank in India."³

Why did this happen and why was it continuing? The Morse Commission states that its comprehensive review of Bank files and numerous discussions with Indian government officials all point to the same conclusion: "the Bank is more concerned to accommodate the pressures emanating from its borrowers than to guarantee implementation of its policies."⁴

The Bank's response has been to ignore and defy the Morse Commission's recommendations, and even go so far as to openly misrepresent them to the Bank's Executive Directors—apparently on the assumption that they were too busy or not intelligent enough to read it themselves. Morse felt compelled to write President Lewis Preston on October 13, 1992, with copies to the Bank's Executive Directors, charging that Preston had sent a document to the Board on management's proposed "Next Steps" that "ignores or misrepresents the main findings of our review."

Subsequently charges were made that Bank management and staff have perpetrated a "coverup," that the Bank's management and staff is "not trustworthy," and cannot be relied upon to tell the Executive Directors the truth. Others have charged that the Bank has shown "a profound lack of accountability to [its] shareholders," and denounced its "suppression of information" to officials of member countries concerning controversial projects. Who made these charges? I am quoting from minutes of the oral statements of the Executive Directors of the World Bank at a meeting held October 23, 1992. At this meeting, the representatives of the United States, Germany, Japan, Canada, Australia, and the Nordic countries—some 42 percent of the voting shares of the Bank—requested Bank management to halt its disbursements on \$450 million of IDA credits and IBRD loans for the Sardar Sarovar dam in India. The then U.S. Executive Director E. Patrick Coady warned at this meeting that if the Bank continued to finance Sardar Sarovar "it will signal that no matter how egregious the situation, no matter how flawed the project, no matter how many policies have been violated, no matter how clear the remedies prescribed, the Bank will go forward on its own terms."

Well, the Bank went ahead on its own terms and continued to support this disastrous scheme until last March. As a face saving device, the Indian government announced it would not be requesting any more disbursements from the Bank.

It is important to note that although disbursements have halted, the Bank still has a responsibility to monitor the environmental and resettlement provisions of its loan agreement with the Indian government until the loan is paid back. I would like to attach for the record an internal memo from the Bank's general counsel that makes precisely this point.

Mr. Chairman, just last week the Indian authorities started to close the sluices of the Sardar Sarovar dam, violating the Indian Government's still binding commitment in its loan and credit agreements with the World Bank concerning resettlement, as well as more recent promises to the Bank and to aid donors that the sluices would not close before June, 1994. If construction continues as planned, 10,000 people face imminent submergence in the next monsoon, which will begin in June.

We request the Subcommittee to write the World Bank and the Indian government asking that the legal commitments and promises concerning resettlement cease being violated and that the premature closing of the sluices halt.

D. Wapenhans Report.—Sardar Sarovar, aid the disasters in the Bank's India lending in general, are just the tip of the iceberg. In fact, there are alarming signs that pressure to move money and meet lending targets at the Bank is so great that the institution is violating its own policies with increasing frequency. Not just the environmental record is a disaster, but other areas that receive less public attention, such as financial monitoring and enforcement of the conditions in World Bank loan agreements. In the summer of 1992 a review of the Bank's \$140 billion loan port-

² Morse Commission Report, 226, 233-234.

³ *Ibid.*, 53.

⁴ *Ibid.*, 36.

folio (led by Willi Wapenhans, now retired World Bank vice president and special advisor to the President) showed that according to the Bank's own criteria, 37.5 percent of recently evaluated projects are failures, up from 15 percent in 1981. The most alarming aspect is economic: according to the Wapenhans report, nearly four-fifths of the financial conditions in World Bank loans—78 percent—are not complied with. The Bank's economic appraisal process is viewed by many staff, according to the same report, as a "marketing device for securing loan approval," and confidential internal surveys of Bank professionals show that "only 17 percent of staff interviewed felt that analytical work done during project preparation was compatible with the achievement of project quality." The report cites a "pervasive" "culture of approval" for loans. In the face of this pressure to lend, other Bank policies, particularly those concerning environmental quality aid rehabilitation of forcibly displaced populations, are reduced to a cynical travesty.

E. The Bank's Response to Wapenhans: Not Credible.—1. First Response: Management Concludes That Under Current Conditions the Bank's environmental and Social Policies are too Complex and Complicated to Carry Out, So It Weakens and Eviscerates the Policies.

The Bank's first response to the Wapenhans report occurred in January, 1993, 6 months after the report was released. It has been relatively little noted, but the implications are shocking: rather than strengthening its existing development policies and making their implementation a priority to ensure project quality (the policies, are known as "Operational Directives" or ODs), Bank management concluded that they are too complicated and difficult to carry out. The Bank's Vice President for Human Resources announced to staff that the Bank will reissue all of the major ODs—for example on forced resettlement, environmental assessment, protection of tribal peoples, protection of wildlands—as new, simplified less specific "Operational Policies," limited to a page or two in length. The new Operational Policies will not even specify at what stage in project preparation required measures are to be taken. The more specific, detailed criteria that are currently found in many ODs are to be relegated a nonbinding, nonmandatory, "advisory" background documents called "Best Practice."

Several Executive Directors of the Bank were troubled by the implications of the initial, January proposal, and as a result in March, 1993 Bank management was pressured to retreat a bit, but not entirely: the short, vague Operational Policies would also be accompanied by associated Bank Procedures for each policy, that "spell out required documentation and the common set of procedures that need to be observed to ensure consistency and quality across [the Bank's] regions."⁵ But these Bank Procedures "are to be as brief as possible, almost a checklist." Most detailed procedures—and probably significant parts of what are now mandatory in the ODS—would still be relegated to "Best Practice."

Bank professionals who have worked in some cases for years to formulate and push through the Bank's ODs on social and environmental issues view the relegation of what were formerly mandatory concerns to the bureaucratic trash heap of "Best Practice" as a giant step *backward* in making Bank staff accountable and responsible for the developmental impact of their actions.

The practical, operational irrelevance of the procedures to be contained in "Best Practice" is well illustrated in the terms of reference for the new Independent Inspection Panel (see below) that will investigate complaints by affected parties in borrowing countries concerning allegations that the Bank is not implementing its policies. No complaints can be raised for the Bank's ignoring or violating "Best Practice."

Senior Bank management have declared that a key thrust of Bank efforts to promote sustainable development in Bank operations will involve expanding and propagating among Bank staff information and documentation on "Best Practice."

2. Second Response: "Next Steps." It took Bank management nearly a year to formulate a more comprehensive plan of action that purported to address the problems described by Wapenhans. The proposed actions, presented to the executive directors in a document in spring, 1993 in a document entitled "Next Steps," were initially so inadequate that they sent "Next Steps" back for major revisions. The U.S. executive director complained at a Board meeting in early May, 1993 that "the expected actions are not concrete enough to be monitorable." "Those hostile to the Bank," he

⁵Jan Wijnand, Senior Manager, World Bank Office Memorandum to Staff Recipients of the Operations Manual, March 12, 1993.

warned, would seize on "Next Steps" "as not a serious response to critical issues of project implementation."⁶

The revised version of Next Steps was approved by the Board in July, 1993, and is little improved. The heart of the plan is a purported new focus on "country portfolio management," with "portfolio restructuring" and a newly declared willingness to refrain from new lending commitments for sectors or even whole countries where performance is poor.

There is little that appears to be concretely monitorable, and the declared means to accomplish this, however, are not reassuring: simplifying existing Operational Directives accompanied by advisory "Best Practice" documentation is a cornerstone of the new approach. Projects are to have "implementation plans," but on the other hand the report states that projects have become "too complex" (i.e. too many environmental, economic and social measures), so their design, and demands, should be "simplified," i.e. keep lending but require less, not more of borrowing governments. This appears to be a surrender to continued poor project quality, rather than a credible approach to improve it. An annual report on portfolio performance will be prepared, simply adding to the already overwhelming volume of paper the Bank produces on its operations. These reports, when they have been more honest and critical—like those of the Operations Evaluation Department (looking at completed projects), or the "Annual Review of Supervision and Implementation" (examining ongoing projects)—have been ignored for over a decade. Other more recent reporting exercises, like the Annual Environment Report, are vapid public relations whitewashes, useless both to staff within the Bank and knowledgeable parties outside.

The hollowness of "Next Steps" is exemplified in its lead recommendation for improving the effectiveness of the Operations Evaluation Department: the name of the report that Bank staff prepares on the performance of a project at its closing is to be changed from "Project Completion Report" to "Project Implementation Report."⁷ Recommended changes in the content of this report appear to be more semantic than substantive. In any case, changing the name and content of Project Completion Reports—which are what OED reviews and criticizes—has no serious relation or connection to the central issue of OED's effectiveness, namely that in operations Bank management has systematically ignored OED's criticisms and conclusions for years.

Last spring coalition of U.S. church, environmental and development groups wrote the Bank expressing concern that "Next Steps" also contains no suggestions or plans to concretely improve the quality of Bank lending in terms of sustainable development, such as indicators related to poverty reduction and environmental improvement. As part of the follow-up to the Wapenhans Report the Bank is preparing more studies of indicators to measure project performance in areas such as poverty reduction. Given the manifest lack of political will and real commitment in the institution to make the most basic efforts in new lending over the past year to carry out longstanding existing environmental and social policies (such as in the energy and resettlement areas), it difficult to see what effect these studies will have except to bury exasperated Task Mangers in an ever growing mountain of paper which they have no obligation to follow.

F. More Public Relations.—If the Bank's senior management had devoted more time to focussing on the need to improve project quality, "Next Steps" might have been less of an embarrassment. But a major priority for the use of their time appears to be a new, ambitious world-wide public relations campaign. In a meeting in late February, 1993 with the Bank's President, they were told (in the words of an internal memo summarizing the meeting) "that the Bank needs to adopt a proactive approach to external communications, rather than trying to defend itself *ex post* against criticism from well-organized environmental and human right organizations." "All VPs agreed that the Bank should develop a donor-outreach program and a conscious strategy to counteract the negative image generated by NGO's and other critics." The Vice Presidents made "numerous suggestions," including "assigning individual Senior Managers as spokes people to specific donor countries," creating a "speech bank," and "using modern communications techniques, such as mass media advertising."

⁶Statement by E. Patrick Coady, U.S. Executive Director, to an Executive Board Seminar, May 4, 1993 (U.S. Treasury Department, typewritten document, 4 pages).

⁷OED, which reports directly to the Bank's Executive Board of Directors, normally reviews about 40 percent of completed projects, starting with the Project Completion Report. Its independent evaluation of the project, and the PCR, is set out in a "Project Performance Audit Report."

The thrust of the entire discussion is on enlisting the highest levels of Bank management in efforts to change public perception of the Bank's "image"—and no discussion that there may be some connection between its tarnished image and the profound, systematic mismanagement of the institution documented in the Morse Commission and Wapenhans reports. The Bank has also hired at considerable expense a high priced public relations consultant, the former Vice President of Mobil, Herb Schmetz, to advise it on its heightened PR campaign; it is hard to see what relation such expenditures have with the Bank's self-proclaimed mission of poverty alleviation. With your permission, Mr. Chairman, I would like to submit the memorandum describing this meeting of Bank Vice Presidents for the record.

G. *The New Information Policy and the Independent Inspection Panel.*—In response to growing international concern with its lack of transparency and accountability, not the least of which has come from the U.S. Congress the Bank has instituted new information policy and an Independent Inspection Panel, remotely inspired by the example of the Morse Commission, that will investigate complaints of violations of Bank policies and procedures that materially affect parties and groups (not individuals) in borrowing countries. These initiatives are just being put into place (the new information policy at the beginning of the year, and the Inspection Panel has not yet been formed * * *), so we cannot not yet say very much about how they are working in practice. There are, however, very serious flaws in the way they have been conceived that raise serious doubts about their potential effectiveness.

The most disturbing aspect about the new information policy is that alternative proposals of relatively senior Bank staff—by the head of the Environment Department and the head of the External Affairs Department—to release much more information than the current policy were rejected. Instead, under the "new" information policy, before Board approval, all project information is still secret. Information on Bank activities and projects is mostly of practical use during the critical stages of project identification, preparation and appraisal, leading up to submission of the project to the Board of Directors for approval. Thus, key documents such as feasibility studies, consultants's reports on environmental and social risks and issues, engineering studies, economic studies etc. all remain secret. The only change is the preparation of a short "Project Information Document" (two or three pages) which is little better than a glorified press release. Project Appraisal Reports (the main document summarizing and describing the project) are to be made publicly available after loan approval—but already for years they circulated widely in donor countries, and in many donor country governments have made them available for years to development consulting and engineering firms that bid on World Bank procurement contracts.

Environmental assessments and National Environmental Assessment Plans are to be made generally available to the public *after* borrowing governments make them available in their own countries. A key issue is the extent to which the Bank will require that governments receiving Bank financing make draft assessments and action plans are made publicly available for discussion and input. So far there is disturbing evidence that many borrowing governments only make the environmental action plans and assessments available after they are finalized and are a *fait accompli*, undermining much of the purpose and utility of environmental planning, which to be effective depends on wide public review of draft documents and assessments.

On the positive side, country economic and sector documents will be made publicly available, after they are finalized. Some of these documents, such as Country Economic Memoranda, are of considerable importance for understanding the Bank's middle-term development and lending strategies for a given nation.

Finally, the single most important advance in the new policy is that not only is there a "presumption of disclosure" (which was the case before—except that the Bank specifically prohibited releasing most documents!), but that if NGO's ask Bank staff for additional information and documentation on a project in preparation, "upon request * * * the Country Department Director responsible will, after consultation with the Government to identify any sections that involve confidential material or compromise Government/Bank interactions, release factual documents, or portions thereof, that provide inputs in the project preparation."

The Independent Inspection Panel will consist of three members who will hear complaints from parties or groups (not individuals) in borrowing countries who have been, or threaten to be, materially affected by the Bank's failure to carry out its operational policies and procedures ("including situations where the Bank is alleged to have failed in its follow-up on the borrower's obligations under loan agreements respect to such policies and procedures") in the design, preparation or implementation of a project. They prepare a report, and issue recommendations to Bank man-

agement, which then decides on a course of action. The panel's report and management response is sent to the President of the Bank and the Executive Board. Although the Board presumably (as in the Sardar Sarovar precedent) would have the option of revisiting management's response if a majority thought it was inadequate, management has never been formally overruled by the Board in the entire history of the World Bank. In reality the management response would be a *fait accompli*.

The panel as presently constituted suffers from critical weaknesses: A majority of Board members can overrule the recommendation of the panel to initiate an investigation of a claim, the panel's report and management's response are kept secret until after the final decision on what action to take is a *fait accompli*, and the budget is limited.

Even more disturbing, the purview of what constitutes a valid claim is limited: even the most flagrant violations of "Best Practice" and Bank guidelines are explicitly excluded from consideration. Bank Vice management has publicly declared on several occasions that the very heart of the Banks "sustainable development strategy" is the elaboration and dissemination to Bank staff of more information and documentation on "Best Practice." What possible real incentive can they have to incorporate "Best Practice" into operations when the highest levels of Bank management and Executive Board are sending the strongest signals that neither the Bank nor any staff will be held the least bit accountable for ignoring it?

H. *What About the Poor?*—The World Bank's principal argument against calls for reducing its funding is that individuals and organizations that espouse such a position are knowingly or unknowingly enemies of the poor. Bank management has argued that those who suggest diverting funds the Bank, particularly IDA, into environmentally, socially, and economically more sustainable alternatives are making the Bank "a whipping boy for what they perceive as poor project policy at the World Bank" and this "threatens to transfer the burden to the world's poorest people, who are desperate for programs and projects to improve their lives." We believe that the money for IDA and IBRD appropriations can be used to really help the poor in much more cost-effective and accountable ways through bilateral channels—USAID, and organizations like the Inter-American Foundation, African Development Foundation, and Appropriate Technology International. Already in the 1970's USAID moved away from the World Bank model of large grants and loans to government agencies for gigantic infrastructure schemes in the poorest countries, particularly in sub-Saharan Africa, to smaller, more flexible funding of private voluntary organizations, that have demonstrated their capacity to directly help poor communities in many of these countries. Huge foreign aid flows to client bureaucracies in governments in some parts of the developing world have frankly compounded problems and inequality in many cases.

There is another model of development assistance that the U.S. supports through its appropriations for foreign assistance that the two national environmental organizations I represent today endorse wholeheartedly. It is an approach that provides technical assistance and transfers small grants and loans (typically less than \$500,000) to local communities small businesses, farmers and entrepreneurs, non-governmental groups and cooperatives in the developing world. It is an approach that has demonstrated its capacity for promoting economic development that is much more likely to be environmentally sustainable and culturally appropriate. Last year the combined annual budgets of Appropriate Technology International (ATI), the Inter-American Foundation (IAF), and the African Development Foundation (ADF), were less than \$65 million—considerably less than one medium size World Bank loan. Funding for these organizations should be greatly increased, and above all their model should be studied and replicated on a much larger scale. We believe this should be the model for U.S. foreign assistance in the 1990's.

Our organizations strongly support increased assistance for poor communities in the poorer nations of the world—but assistance that is locally responsive and environmentally responsible, and, above all, and that has a better chance of working. We would hope continuing debate over the future of U.S. foreign assistance will emphasize more the need to increase this kind of aid to communities, small businesses and farmers along the models of the I.A.F. and the African Development Foundation, and some of the innovative programs that AID is now carrying out. One such program is the United States-Asia Environmental Partnership, a program that involves U.S. and Asian community groups, businesses and governments in a program of technology cooperation, biodiversity conservation, environmental improvements in infrastructure, and fellowships and training.

A second point that needs to be made about the poor and the World Bank, aid IDA, is that most World Bank and IDA disbursements flow right back again out of borrower countries in the form of procurement contracts, and the lion's share of these contracts go to the richest industrialized nations. Net disbursements (i.e. bal-

ancing out gross disbursements with repayments back to the Bank of previous credits) of the IBRD and IDA to borrowing countries in the Bank's Fiscal Year 1993 were \$7.005 billion. But the Bank's borrowers in the same 1993 Fiscal Year paid out to the 24 rich OECD countries \$6.835 billion in procurement contracts on existing Bank projects, leaving the Bank's borrowers with exactly \$170 million in net positive flows in their business with the Bank for that year. In 1992, the industrialized, OECD countries received \$195 million *more* back from procurement contracts in Bank business than the Bank's borrowers received in net disbursements for the same.

In 1993 developing country World Bank borrowers paid for goods and services associated with Bank projects nearly \$.75 billion to France, \$727 million to Britain, \$846 million to Japan, and \$489 million to Switzerland and its six million inhabitants. In fact, IDA disbursed more money back to Britain last year than it committed in future loans to Bangladesh (\$290 million versus \$171 million), and more money flowed on IDA contracts to Switzerland (\$125 million)—than IDA made in loan commitments to the Philippines (\$70 million), Sri Lanka (\$110.1 million), and numerous sub-Saharan African countries with significantly larger populations than Switzerland: Senegal (\$40 million), Mali (\$12 million), Mauritania (\$26.7 million), Guinea (\$85.5 million), Madagascar (\$32.7 million), Sierra Leone (\$81.3 million)—the list goes on and on. As far as the U.S. share of World Bank procurement is concerned, there are cheaper, more efficient, environmentally sustainable ways to subsidize U.S. business than through the World Bank, ones targeted toward small, high-technology businesses that create the most jobs.

A final argument is sometimes made that the community-oriented assistance programs we propose as alternatives are fine, but because they do not transfer the large amounts of money to governments in sub-Saharan Africa or South Asia that IDA does (even if more than half flows right out again for procurement), they do not address urgent macroeconomic problems confronting many of these nations, namely chronic balance of payments and trade deficits, declining terms of trade and external outflow of financial resources. But the main external financial burden facing many of these countries is their debt. The foreign debt of sub-Saharan Africa is approximately \$150 billion—about equal to the entire region's annual GNP. This debt is eating up more than ten percent of the export earnings of eight sub-Saharan countries, and more than a third of the earnings of Zambia and Uganda.⁸ Unlike Latin America, a much higher proportion of the African debt is owed not to private banks, but to governments of the industrialized countries, and 36 percent is owed to multilateral agencies like the World Bank. In fact, Uganda owes 62 percent of its debt solely to the World Bank.

Annual IDA net disbursements to the region are relatively insubstantial compared to the long term financial relief that debt relief could provide. We strongly believe that the U.S. government should endorse the so-called "Trinidad Terms" for debt relief, so-called because they were agreed on by the Commonwealth Finance Ministers at a meeting in Trinidad in September, 1990. The Trinidad terms envisage canceling two-thirds of the existing debt, and rescheduling what remains over 25 years, with a 5 year grace period. If we are serious about ending trickle down economics not just in the U.S., but for the world's poor, we should start by endorsing them. The previous administration rejected the Trinidad terms; but surely this administration should be able to accept a debt relief proposal that was endorsed by both conservative and liberal governments in Europe, a proposal indeed championed by John Major.

In fact, the World Bank could finance substantial debt relief for Africa without additional appropriations or touching the callable capital of its hard loan window, the IBRD. The Bank has some \$18.5 billion in liquid reserves which it maintains in a semi-permanent investment fund, placed in government and high grade corporate bonds. The interest alone that the Bank earned on this portfolio was about \$1.13 billion in 1993. This fund has existed for decades, and since 1985 has not sunk below \$17 billion.

The major shareholding countries of the Bank could easily direct it to allot several billion dollars from this fund to its poorest and most economically strapped borrowers for relief from the burden of their World Bank debts. The Bank argues that it needs a substantial bond portfolio "to ensure flexibility in its [the IBRD's] borrowing decisions should borrowing be adversely affected by temporary conditions in the capital markets."⁹ But half or a third of \$18.5 billion would be more than sufficient these purposes. Indeed, Oxfam has endorse precisely this proposal for Africa, having

⁸ Oxfam, "Africa Make or Break," 15.

⁹ World Bank 1992 Annual Report, 77.

witnessed first hand the social damage precipitated by Bank-Fund adjustment programs.¹⁰

I. Adjustment, Poverty and the Environment.—Another area of Bank negligence that concerns us is rooted in the social and environmental consequences of World Bank and IMF structural adjustment programs. Adjustment as promoted by the Bank¹¹ and IMF has resulted in government domestic austerity programs on the part of borrowing countries and intensive efforts to increase export earnings. Too often the way in which the Bank and the Fund have promoted such measures have resulted in reduced education, health, and environmental protection expenditures, and reductions in real wages for working populations already on the edge of poverty (in Mexico, often cited as a model, real wages plummeted by 50 percent in the 1980's). Numerous case studies have linked to World Bank/IMF adjustment policies an appalling drop in education and public health services for the poorest populations of the poorest countries, particularly in Africa.¹² The United Nations Children's Fund (UNICEF) and the United Nations Commission for Africa published reports in the late 1980's that bitterly indicted the Bank's approach.¹³ The UNICEF report reached the conclusion that World Bank and IMF adjustment programs bore a substantial responsibility for lowered health, nutritional and educational levels for tens of millions of Third World children.¹⁴

Last spring, the international aid and relief organization Oxfam condemned World Bank adjustment programs for "dramatically worsen[ing] the plight of the poor" in sub-Saharan Africa. Oxfam recounts that under Bank/Fund adjustment dictates consumer prices for low-income families in Zambia doubled in an 18 month period, and that over the past decade the number of Zambian children "suffering from malnutrition has risen from 1 in 20 to 1 in 5." Bank adjustment policies during the 1980's, the Oxfam report continues, bear responsibility for many African countries spending less in 1990 on public health per capita than they did in the 1970's, and contributed to a drop in primary school enrollment in the region from 78 percent at the beginning of the decade to 68 percent at its end.¹⁵

The Bank's approach to the economic crisis of sub-Saharan Africa has worsened it rather than alleviating matters. In Africa, it led to what Oxfam calls "export-led collapse." The Bank encouraged numerous countries around the world to convert agricultural land and tropical forests to increased production of commodities such as coffee, cacao and cotton—and prices for these commodities plummeted, as could have been expected. In West Africa between 1986 and 1989, Oxfam notes, "cocoa exporters increased their output by a quarter, only to see foreign-exchange receipts fall by a third as prices collapsed." In some cases adjustment-promoted cuts in domestic spending further crippled the export capacity that adjustment was supposed to increase: in one district in rural Tanzania in 1992 farmers were unable to market most of their cotton crop because of the collapse of road maintenance prompted by adjustment-sponsored cuts in government expenditures.¹⁶

The adverse environmental effects of adjustment are considerable.¹⁷ For example, adjustment in Mexico during the 1980's resulted in the budgets of the Department of National Parks and the Bureau of Urban Development and Ecology falling faster,

¹⁰ Oxfam, "Africa Make or Break," 15.

¹¹ In the late 1980's and early 1990's about a quarter of World Bank loans were for adjustment.

¹² See, for example, A. Peter Ruderman, "Economic Adjustment and the Future of Health Services in the Third World," *Journal of Public Health Policy*, Winter 1990, 481–89; Judith Marshall, "Structural Adjustment and Social Policy in Mozambique," *Review of African Political Economy* 47 (Spring 1990), 2841; Howard Stein and E. Wayne Nafziger, "Structural Adjustment, Human Needs, and the World Bank Agenda," *The Journal of Modern African Studies* 29, no. 1 (1990), 173–189.

¹³ United Nations Economic Commission for Africa, *African Alternative Framework for Socio-Economic Recovery and Transformation* (Addis Ababa: United Nations Economic Commission for Africa, 1990).

¹⁴ Giovanni Andrea Cornia, Richard Jolly, and Frances Stewart, *Adjustment with a Human Face, Volume I, Protecting the Vulnerable and Promoting Growth* (Oxford: Clarendon Press, 1987), 34, 287–88.

¹⁵ Oxfam (U.K.), "Africa Make or Break: Action for Recovery" (38 page printed report) (Oxford: Oxfam, 1993), 2.

¹⁶ Oxfam (U.K.), "Africa Make or Break," 7–8.

¹⁷ Adjustment is in theory mixed in its environmental implications: one important environmental benefit could be the reduction of government subsidies that encourage profligate energy and water consumption, as well as over-use of agricultural chemicals. Overall, however, Bank and Fund adjustment conditions seem to be more vigorous and successful in reducing government funding for "soft" social and environmental services, lowering real wages, and promoting cash crops for export, than in cutting energy and water subsidies for powerful vested industrial and agricultural interests—a hardly unexpected outcome, given the political bargaining power of those affected.

according to a World Wide Fund for Nature study, "than government spending in general."¹⁸ Reductions in agricultural extension services in several countries pushed more small farmers into unsustainable practices, either depleting lands they owned, or expanding into tropical forests and other marginal lands.¹⁹ Increased social disparities and poverty precipitated by adjustment are an major cause of environmental degradation in themselves. A recent case study of World Bank—IMF adjustment policies in the Philippines prepared by Robert Repetto and Wilfredo Cruz of the World Resources Institute concluded that

real wages fell more than 20 percent between 1983 and 1985. As vastly increase numbers of workers migrated to the open access resources of the uplands and coastal areas, deforestation, soil erosion, the destruction of coastal habitats, and the depletion of fisheries increased.²⁰

In the Philippine case as in many other countries, adjustment did *not* succeed in launching export-oriented growth as intended. The World Bank contends the failure is a consequence of poor government compliance with Bank prescriptions as well as the result of a global economic slump. Repetto and Cruz conclude that if the Bank adjustment program had achieved its goals, unsustainable exports of natural resources and environmentally negligent production would have been the consequence; in their simulation "both logging and mining expand dramatically, by 7.3 percent and 29.4 percent, respectively. Energy use grows by 3.0 percent, and erosion-prone agriculture by 2.5 percent."²¹

According to a recent World Wildlife Fund and World Resources Institute studies, from which I excerpted the examples cited above, the Bank has done little to take into account the environmental impacts of its adjustment programs. To attempt to alleviate the supposedly short-term, adverse social effects of its adjustment lending on the poor, the Bank has responded with still more loans for "social impacts of adjustment." Their objective is to soften the effects of increased food prices and reduced wages for particularly vulnerable poor populations. OXFAM studied two such "social impacts of adjustment" programs of the World Bank in Zambia and Ghana, and concluded that they "probably have served more of a political purpose in giving adjustment the appearance of a human face, rather than a genuine compensatory purpose."²² The one certain impact of this approach is to further increase the immense debt burden of many developing countries—a principal cause of their having to submit to adjustment in the first place.

The Bank's claims that it is helping the poor in Africa and elsewhere increasingly lack credibility. Having witnessed the effects of the Bank's activities first hand in the continent, Marguerite Michaels, a fellow of the Council on Foreign Relations, concluded in an article in published earlier this year in *Foreign Affairs* that "the root problem with the bank has been a powerful combination of arrogance, ignorance and absolute, unchecked power. "Indeed, for the World Bank the whole continent and its people have been a field of experimentation and manipulation, a "research lab" in Michael's words, for dubious and untried economic theories whose application would be politically, socially and morally unacceptable in industrialized democracies."²³

J. World Bank: Conclusion and Recommendations.—We believe that the World Bank is currently being mismanaged: in response to evidence of relentless decline in project quality, and increasing concern in the U.S. and elsewhere with the institution's lack of transparency and accountability, half-hearted, largely cosmetic reforms are undertaken while the fundamental institutional pathology—pervasive pressure to lend that traduces most Bank policies and quality control—continues largely unabated. Senior management is increasingly drawn into public relations damage control, while the environmental, social and economic quality of the lending portfolio continues to fester. The Bank's record and continuing abysmal performance in areas that go to the heart of its mission as a sustainable development institution—such as rehabilitation of millions of poor forcibly resettled by its projects, and energy efficiency and conservation—all point to an alarming lack of focus and profoundly distorted priorities on the part of management.

¹⁸ David Reed ed., *Structural Adjustment and the Environment* (Boulder Colorado: Westview Press, 1992), 151.

¹⁹ *Ibid.*

²⁰ Wilfredo Cruz and Robert Repetto, *The Environmental Effects of Stabilization and Structural Adjustment Programs: The Philippines Case* (Washington, D.C.: World Resources Institute, September, 1992), 6.

²¹ *Ibid.*, 60.

²² OXFAM (U.K.), "Africa Make or Break," 25.

²³ Marguerite Michaels, "Retreat From Africa," *Foreign Affairs*, vol. 72, no. 1, 101, 100.

We would note that on June 25, 1991, the chairman and ranking minority member of the Senate Appropriations Subcommittee on Foreign Operations wrote the Secretary of the Treasury to set down benchmarks for improved performance by the World Bank in four critical areas: energy efficiency, treatment of forcibly resettled populations, tropical forest protection, and environmental assessment. "In the event that workable benchmarks are not met by [mid-1993], we will have a clear basis to consider appropriate actions, including withholding a portion of IBRD appropriations in FY 1994 or future years." We believe that the evidence is substantial that rhetoric and new policies notwithstanding, that both new lending and ongoing implementation of the Bank's project portfolio show little real *effective* improvement in these areas.

1. We would suggest that it is time for the Foreign Relations Subcommittee on International Economic Policy and Appropriations Subcommittee on Foreign Operations to collaborate in discussing possible cuts in IBRD appropriations for FY 1995. We believe this will be the most effective spur to real World Bank reform in the four areas cited in the June 25, 1991 letter to the Secretary of the Treasury, as well as in needed improvements in transparency, accountability, and focus on project quality.

2. Congress for the first time last year authorized the IDA replenishment for only two instead of three years. We believe that next year IDA should not be reauthorized if the Bank does not make substantial progress in carrying out the following measures to ensure greater transparency, accountability, and change of internal priorities to emphasize project quality over the pressure to lend. We urge the subcommittee to communicate the need for these measures to the Treasury Department and work with it to monitor their implementation:

a. The Bank's new information policy must be expanded so that gives access to affected populations and the public most Bank documents generated in project preparation and appraisal *before* loan approval. Other critical Bank documents for evaluating its performance—such as full project evaluation reports—should also be readily accessible. The revised policy should precisely define categories of information which will be considered confidential. Information listed as confidential should be justified by compelling policy reasons. All other information should be made available in its entirety to the public.

b. The newly created inspection panel should have its now limited authority expanded so it can exercise real accountability: the panel's decision to initiate an investigation should not be subject to being overruled by the Executive Board, and the panel's report and recommendations should be made available to the party bringing a claim and to the public *before* the final decision of management and/or the Executive Board on what action to take. There should be a strong presumption that management should follow the recommendations of the panel unless it can demonstrate to the Executive Board extraordinary and compelling policy and institutional reasons why it should not. Finally, the initiative to weaken Bank Operational Directives by reissuing them as watered down Operational Policies must be reversed, since if this proceeds the Panel will have very little to hold Bank staff and management accountable for, whatever its putative powers.

c. There is a critical need to identify and carry out more effective measures to address the problems identified in the Wapenhans Report—perhaps through the creation of an independent panel not beholden to Bank management. The thrust of these measures has to be to make project quality in all areas—financial, environmental, economic and social—the number one priority of all Bank operations. To change the "approval culture" (to cite the Wapenhans report) of the Bank, a radical change is needed in career incentives for staff so that employees are rewarded for making quality in projects the first priority, rather than moving money.

In particular, the following two measures would immediately contribute to enhancing project quality:

1. As mentioned in point 2.b. directly above, the Bank's Operational Directives must be preserved, not watered down into a system of weak, mandatory Operational Policies and a superfluous, nonbinding paper pile of "Best Practice."

2. The phenomenon of the "bunching season," when a disproportionate number of World Bank loans are submitted for approval before the Board in the last few weeks of the fiscal year, must be eliminated. The U.S. Executive Director should be instructed to promote a management directive that will require that no more than 15 percent of the Bank's annual lending can be presented before the Board for approval in any one month. We understand that, much to its credit, the management of the

Asian Development Bank has recently issued such a directive. Such a directive would also be appropriate for the other regional development banks.

3. There is a great need to improve the procedures and modalities for the Bank to truly address poverty alleviation in its operations, including:

a. environmental and social impact assessments, including poverty impact assessments, should be required for all structural and sector adjustment loans.

b. Benchmarks that enhance the focus of Bank lending on poverty reduction should be implemented—the Bank is currently conducting studies on the issue, but there is little evidence that these studies will have any more impact on its operations than most of the other paper it produces.

c. The Bank should be urged to devote some part of its lending portfolio to package loans that would support micro-enterprise development, that is, small loans (limited to \$6,000 or \$12,000 in size) to the poor in the informal sector. The Grameen Bank in Bangladesh has often been cited as a paradigm for the kind of institution that could be supported to make such loans, and, alone among the MDB's, the IDB is the only institution that has made loans of this type, both through its small projects facility and through four loans from its main lending operations over the past several years.

4. We urge the Congress to request the Secretaries of Treasury and State to raise the issue of World Bank reform along the lines suggested above in the G-7 process as well as in the forum of the OECD.

5. We suggest that Congress commission from the Office of Technology Assessment two studies to be completed over the next year:

a. A an analysis of bilateral, multilateral, private sector and nongovernmental alternatives to World Bank lending for assisting the poor promoting sustainable local development in the poorest developing nations; and

b. A study of existing debt relief proposals and an analysis of specific measures the U.S. can take to assist the poorest developing nations in reducing their debt burden, in particular, a thorough analysis of the feasibility of using a significant part of the World Bank's \$18.5 in liquid reserves to retire the multilateral debt of the poorest economies.

5. Finally, the 50th anniversary of the Bretton Woods conference this July is a particularly important and much needed occasion for a Congressional and administration initiatives to review the effectiveness of existing multilateral institutions in promoting U.S. foreign policy goals in a post-cold war, post-Rio Earth Summit world. We would suggest, for example, a series of oversight hearings. We believe that existing multilateral institutions have grave flaws in terms of accountability, transparency, and flexibility, flaws that are totally dysfunctional in a world where global environmental problems can only in reality be addressed locally but must be coordinated internationally.

III. GLOBAL ENVIRONMENT FACILITY

We wish to reiterate two points the Vice President touched upon in his speech before "Global Legislators for a Balanced Environment" Tuesday evening, namely, that, first "as we move forward on the GEF we must always keep in sight the overall lending practices of the multilateral banks." Second, "the recently completed pilot phase of the GEF had a lot of flaws. It was not democratic enough. It did not have a clear enough direction."

It is indeed true that the proposed GEF replenishment will at best be good money thrown after bad if the World Bank and other MDB's do not make much more progress in reforming their main lending operations. These operations are running at a rate of \$45 billion in new loan commitments a year, supporting projects aid programs whose total cost is probably well over \$130 billion.

What good, for example, will another two or three hundred million in grants a year do to reduce CO2 emissions while the Bank continues to lend billions for huge coal fired power plants in India and China without considering least cost alternative demand side investments that could obviate the need for many of these plants? Donor countries, including the U.S., have already given tens of millions of dollars to the ESMAP (Energy Sector Management Assistance Program) program within the World Bank, with negligible effects on changing the priorities of Bank energy lending to give greater emphasis to end-use efficiency investments. What stake will poor populations in the developing world have in GEF projects if they are conducted along the same lines of small-minded secrecy and closed, top-down, bureaucratic planing that characterizes so much of the Bank's current way of operating?

The Vice President's second point is of critical importance to the current replenishment discussion: The official GEF evaluation report—conducted by the implementing agencies themselves—was highly critical of the GEF pilot phase. In fact,

the evaluation report recommended that the GEF not undertake program initiatives with new funds until it has put in place new strategies and program guidelines.

In this regard, we wish to call attention to legislation the Congress has enacted two years in a row to the effect that no funds should be released to the GEF until the Secretary of the Treasury determines and reports to the Committee on Appropriations that the GEF has established clear procedures on full public access to information on GEF projects, and the larger projects of implementing agencies with which the projects may be associated; procedures to ensure full consultation and participation of affected populations in recipient countries; that GEF governance is reformed to ensure full oversight by participating nations of individual projects, with full participation of nongovernmental organizations; and that if by the end of the fiscal year these requirements are not met all appropriated funds for that year are transferred to AID for activities that further the goals of the GEF.

While the next GEF Participants' Assembly, scheduled to take place in Geneva on March 14-16, is to obtain a final agreement on the establishment of a permanent GEF and the GEF replenishment, decisions on several issues that are critical to the transparency and accountability of the GEF have been postponed.

These issues concern basic—yet indispensable—ground rules that (a) public access to information on GEF projects and associated activities of the implementing agencies and (b) the establishment of procedures ensuring participation of NGO's and affected communities during the GEF project cycle as well as NGO observer status at GEF Council and Assembly meetings.

The need for sound procedures in these areas is further compounded because the Secretariat of the GEF, as is currently being envisioned in the founding document for the permanent GEF, does not have the degree of independence from the implementing agencies that would allow it to become the "independent arbiter" that the official GEF evaluation report strongly calls for and that we think is of utmost importance. Indeed, in view of the fact that the GEF's Chief Executive Officer is likely to come from one of the implementing agencies and/or return there after his or her position with the GEF expires, and that staff for the GEF Secretariat will be either seconded from, or hired by, the implementing agencies, it will be difficult for the GEF Secretariat to exercise the much needed "watchdog" function over the activities of the implementing agencies.

In view of the above we strongly recommend that authorizing legislation for the GEF replenishment provide that all final decisions on disbursing U.S. funds to the GEF be made contingent upon evidence that the future GEF Council is ready to adopt the type of procedures that ensure the transparency and accountability we all have worked for—and that the Congress has required as a precondition for appropriating GEF funds. As it will take time to develop the appropriate guidelines and have them adopted by the future GEF Council, there seems to be no need to rush the disbursement of funds, particularly as it is our understanding that a large part of the resources in the already existing GEF core fund have yet to be disbursed. In addition, the GEF's principal "clients," the Climate and Biodiversity Conventions Parties, are still in the process of developing detailed guidance on policies, program priorities and eligibility criteria—criteria that the Parties to these conventions view must be in place before any new commitments of the GEF replenishment can begin.

For these reasons the GEF authorization should articulate a deliberate approach. We believe that immediate release of funds would be appropriate for supporting developing country planning processes, reporting requirements, developing country travel expenses and capacity-building efforts.

I might add that these and other GEF reform measures have widespread and growing support among nongovernmental groups all over the world. The recommendations of this testimony on the GEF have been endorsed by 10 national U.S. environmental organizations with over 6 million members and by the Union of Concerned Scientists in a letter sent yesterday to the U.S. Treasury Department.

IV. AFRICAN DEVELOPMENT BANK

A. Introduction.—The African Development Bank, which lent about \$3.5 billion last year, suffers from many of the same problems as the World Bank, but worse: a steady, pervasive deterioration of overall project quality, gross environmental negligence, and highly restrictive, secretive information policies. It has an Environment and Social Policy Division with half a dozen staffers, as well as an Environment Policy Paper issued in June, 1990, that sets out environmental policies for sectors such as agriculture, forestry, transportation etc. In 1992 it also prepared a set of Environmental Assessment Guidelines for use in project preparation, and within the past few weeks issued a final version of a Forestry Policy, which like the World Bank Forest Policy issued last year commits the African Development Bank to not financ-

ing commercial logging in primary forests. But the environmental staff, policies and guidelines have had little effect on improving the environmental quality of most projects—a familiar story.

Over the past three years EDF has encountered a number of blatant examples of AfDB projects that are needlessly threatening Africa's remaining rain forests and their inhabitants. These include a road-building project in the largely intact rain forest of southeast Cameroon, and coffee-growing project in the Central African Republic that threatens a forest reserve and national park established through recent World Bank loans. In Guinea, the AfDB's Diecke Oil Palm and Rubber Project promotes agro-industrial activities affecting an area that is one of Guinea's last two remaining areas of intact rain forest. The Rubber Scheme Phase II Project for Gabon involves clearing several thousand hectares of forest for rubber plantations. Yet the ecological impact has been dismissed as irrelevant on less than half a page of the Staff Appraisal Report.

B. Failed Commitments from the last Replenishment of the African Development Fund (AfDB).—The African Development Bank (AfDB) has requested a 50 percent increase in funding from international donors for its soft loan window, the African Development Fund (AfDF). The AfDF is asking for a total of \$4 billion for the 3-year cycle of AfDF VII and expects the United States to at least maintain its share of the \$492 million for this period. The replenishment negotiations have been ongoing throughout 1993 and are expected to be completed at the time of the AfDB's annual meeting in May 1994.

During the negotiations for the previous replenishment cycle (AfDF VI), the United States and other donors obtained the AfDB's agreement to several important environmental reforms to ensure the long-term sustainability of its investments. Among the promised reforms were:

- the commitment to environmental screening of projects;
- the completion of environmental impact assessments (EIAs) and their timely delivery to the Bank's Board of Directors;
- the guarantee of ongoing public participation throughout the EIA process;
- the presentation of new Bank policies for the forestry and energy sectors.

There have been major problems for NGO's and citizen's groups in obtaining information from the AfDB. Even the simple listing of projects in the AfDB's pipeline, the Quarterly Operational Summary, has not been made available to NGO's despite numerous written and oral requests over the past three years.

Despite the AfDB's lack of cooperation, NGO's have tried to monitor the AfDB's progress in environmental performance, especially the implementation of the provisions agreed to under AfDF VI. While some environmental measures have been taken at the formal level, there is little evidence that these did have an impact on actual operations. With respect to the major areas of promised reform, the overall results are unacceptable:

1. Environmental Screening of Projects.—Improper initial classification of projects is a major problem. Let me cite two recent examples. In the Malawi Lilongwe Forestry project—for a country which suffers from one of the highest deforestation rates in the world—the AfDB classifies it as a category III project, i.e. not requiring any type of environmental analysis. This is despite the fact that the goal of the project is to "improve management and production of remaining indigenous forests" (Quarterly Operational Summary, March 31, 1993). The Mozambique Forestry Development Project receives no environmental category at all, although it involves significant forest management activities. (Quarterly Operational Summary, June 30, 1993).

2. Environmental Assessments.—The AfDB does not have budgetary provisions for carrying out EIAs. Therefore Bank staff have to devote considerable energy to finding bilateral donor support for EIAs for individual projects. Relatively few full EIAs have been prepared during the cycle of AfDF VI. During the year of 1992 (the only full year for which figures are available), the AfDB and AfDF approved 93 project and policy-based loans totalling just under \$3 billion (AfDB Annual Report 1992, page 41). During that same period, the United States had to abstain from voting on projects for lack of timely availability of EIA summaries, i.e. compliance with the Pelosi amendment, on 34 projects (U.S. Treasury Department's International Financial Institutions Quarterly Transactions covering the period from November 25, 1991 to May 3, 1993).

The AfDB had made a commitment to consulting affected groups and NGO's on an ongoing basis during the EIA process, to provide them with copies of the completed EIA report and to report to the AfDB Board on these consultations (Report on the Sixth General Replenishment of the Fund, March 1, 1991, page 9).

The commitment to consulting affected groups and NGO's has all but been ignored in practice. EIAs have largely been carried out by short-term missions of foreign consultants without participation of and consultation with affected communities and NGO's. Bank management has also failed to report back to the AfDB Board on the consultations, or the lack thereof, as required by AfDF VI.

3. New Forestry and Energy Policy Papers.—The AfDB group committed itself to present these policy papers to the Board in the fourth quarter of 1992 (Mid-term report, AfDF VI, page 35). As of February 1994 the Board has not been presented with final draft policy papers for discussion and adoption by the Bank.

C. Flawed Projects and Flawed Decision Making.—A recent Committee on Foreign relations memorandum points out that the United States currently votes against about 30 percent of AfDB and AfDF loans on the grounds that the loan proposals are poorly designed and the projects are not likely to be effective (Committee on Foreign Relations, January 18, 1994, subject: Nomination Hearing for Alice M. for Alice M. Dear to be U.S. Executive Director to the AfDB). The current situation at the AfDB is one where decision-making on projects has little to do with the quality or merits of a project. No regional member country will vote to deny a loan to another regional member country. The formal voting structure at the AfDB which—independent of financial contributions to the Bank—grants regional member countries two-thirds of the voting shares in the AfDB and 50 percent of the voting shares in the AfDF, sets this Bank apart from all the other MDB's.

Environmentally and socially highly questionable projects have gone ahead despite significant opposition from some Board members. This has been the case with the *Barbara dam project for Tunisia*. In neighboring *Algeria*, the AfDB plans to finance the *Koudiat Acerdoume dam*, which is opposed by some Board members, including the United States, because of the project's lack of adequate provisions for a large number of people to be forcibly resettled under the project. To this date the AfDB has no policy or guidelines to help ensure fair compensation and adequate re-establishment of populations affected by involuntary resettlement carried out under its operations.

The poor quality of many AfDB and AfDF loans can only result in further increasing the already unmanageable debt burden of many of the African countries without producing commensurate benefits. If anything, many of these ill-conceived loans contribute to further aggravating the economic, social and environmental problems in the borrower countries.

D. Recommendations.—We believe that the current negotiations for the Seventh Replenishment of the AfDF have to set down benchmarks for tangible improvements in project quality, benchmarks whose achievement should be linked to release of the full replenishment. These include:

1. Portfolio Performance Report.—Final decisions on the replenishment of AfDF VII should wait for the results and recommendations of the ongoing AfDB Project Portfolio Review, an exercise similar in intent to the 1992 World Bank Wapenhans Report. In the interim, short-term bridging funds for AfDF VII are more likely to produce reforms from which the AfDB will emerge as a stronger institution than a firm commitment to fresh funds before the development impact of AfDB operations is known.

2. Access to Information.—Project documentation should be made available in a timely manner to permit public input, which ultimately will help ensure the sustainability of the AfDB's portfolio. Documentation to be publicly available should include:

- Quarterly Operational Summaries
- Environmental Impact Assessments (Cat. I projects) or environmental analysis for projects with impacts requiring mitigation (Cat. II projects)
- Descriptions of consultative processes in regional member countries (as required by AfDF VI)
- National Environmental Action Plans
- Staff Appraisal Reports
- Reviews of project performance results carried out by Operations
- Evaluations Office (OPEV)

The AfDF VII negotiations should request the African Development Bank to inform its members about the logistical arrangements it plans to put in place to ensure timely public access to project documentation (for example use of U.N. library system).

3. Participation of Affected Groups and NGO's.—As already required under AfDF VI replenishment, the Bank should establish procedures for systematic reporting on the consultation and active participation of affected communities and NGO's in the early stages of project development and throughout the project cycle. In the current

replenishment negotiations the AfDB should make a commitment to the Board that it will not present projects for approval without reporting to the Board on the consultative process taking place in the regional member country.

4. *EIA Process.*—The African Bank should be asked to propose a system for both promoting national capacity-building through the EIA process and for internalizing the costs of EIAs.

5. *Supervision of AfDB Projects.*—The monitoring and evaluation of AfDB projects is extremely weak. Supervision of projects is rare. In view of the scarcity of resources for development purposes, the Bank's focus must be to achieve a maximum of benefits. The U.S. should promote in the AfDB negotiations a request for the bank to develop a system of substantially stronger supervision of its project portfolio. In addition, the bank should establish a procedure to regularly report to its members about the findings of its monitoring and evaluation reports.

6. *Establishment of Policies.*—Both the Bank's new forestry and energy policies should be widely reviewed and discussed by interested parties before final drafts are submitted to the Bank's Board for approval. In addition the bank must develop a policy and clear guidance to its staff on projects involving involuntary resettlement, and commit itself to produce an inventory of all ongoing AfDB-funded projects which require resettlement.

7. *Establishment of an Independent Appeals Mechanism.*—As a sign of commitment to environmental reform the Bank should establish an appeals mechanism or independent inspection panel which would allow those negatively affected by Bank projects or alleged violations of Bank policy a means of recourse.

V. INTER-AMERICAN DEVELOPMENT BANK (IDB)

The Inter American Development Bank (IDB) is now negotiating its eighth capital replenishment, and management is confident that the replenishment will be signed at the upcoming annual meeting in mid-April. The governors have provisionally agreed on a capital increase of approximately \$40 billion in the Bank's Ordinary Capital, or a two-thirds increase from the \$60 billion attained in the seventh replenishment. An increase of \$950 million in the Fund for Special Operations (FSO), the IDB's concessional window, is also proposed. Our organizations would support the proposed capital increases, *provided* that several key issues are adequately addressed in the conclusion of the replenishment negotiations, and that the upcoming reorganization of the IDB will strengthen—rather than attenuate—the institution's capacity to address environmental and social concerns in its operations. Several ongoing projects raise serious concerns with the Bank's ability to ensure public participation in critical areas, and several potential projects on the horizon could create major environmental and social problems. We will be happy to submit additional material for the record on these problem projects. It is also the case, however, that the IDB has in several instances taken innovative steps to involve local populations in development decisions, and to create new models for addressing some of the most intractable environmental problems in the hemisphere.

A. *Public Participation and Environment in the IDB—Positive Examples*

1. *Brazil Porto-Velho-Rio Branco Road Improvement Project.*—The IDB's ongoing experience in the environmental component of this project is a benchmark in the active involvement and direct participation of affected populations in internationally financed development. The IDB has in this project set the standard by which all other multilateral institutions (and indeed other operations of the IDB) should be judged with respect to project transparency and consultation with local NGO's. It shows that in difficult situations, when there is political will, the IDB's can get it right.

The project dates to 1985 when the IDB approved \$58.7 million in two loans to pave 502 kilometers of road between the Amazon capitals of Porto Velho and Rio Branco. The loans included \$10 million for the Project for the Protection of Indigenous Communities and the Environment (or PMACI, in Portuguese). The road threatened to greatly increase migration, deforestation and the invasion of indigenous areas, as well pressure on the forest-dwelling rubber tappers of Acre state. In 1987, after rubber tapper leader Chico Mendes denounced the effects of the project, and government failure to comply with the PMACI loan conditions, the IDB suspended disbursements, under U.S. pressure. Before agreeing to restart the disbursements, the IDB held an unprecedented negotiation between government agencies, and local Indian, rubber tapper and environmental organizations, and required an agreement on how the environmental component was to work as a condition of restarting disbursements. Among other results, the negotiation forestalled a military plan to greatly reduce indigenous lands in the project area. Subsequently, the IDB

convinced the federal government to transfer responsibility and funds for much of the PMACI to local agencies and NGO's.

The IDB is in consequence now supporting the most innovative work in the region in creating sustainable economic alternatives for rural people including increasing local processing for forest products, popular education for Indians and rubber tappers, and the demarcation of extractive reserves. IDB, the NGO's and government agree that this has greatly increased project quality. Gains in project quality followed directly on the Bank's willingness to hold a substantive discussion between government and NGO's—despite political controversy—before moving ahead with the project, and to reformulate project goals based on this discussion.

2. *Fund for the Development of the Indigenous Peoples of Latin America and the Caribbean (Indigenous Fund).*—The IDB, following the initiative of the government of Bolivia in 1991, has supported the creation of a new, international mechanism to finance sustainable development projects by and for indigenous peoples in the region. The IDB has provided \$2.5 million for start-up costs of the technical secretariat of the Fund, as well as invaluable support in the successful inter-governmental negotiations of an innovative governance structure. The agreement which established the fund was signed by 17 Latin governments, in 1992, and subsequently the parliaments of three nations (Mexico, Bolivia and Peru) have ratified the agreement, such that the Fund now has juridical personality and can start operations.

The great step forward made by the Fund is that the establishing agreement stipulates that each member country in the region be represented by a government representative, and a representative of the indigenous people. The government must accredit the indigenous representative (a compromise to gain government acceptance for autonomous indigenous representation.) Extraregional members or regional members with no indigenous population have one representative. The Board, when constituted will maintain the same tripartite structure—three Indigenous Peoples representatives, three representatives of regional governments, and three nonregional government representatives. While the Fund is a very recent initiative, it has already succeeded in making important advances in promoting dialogue between indigenous organizations and government, and in assuring government recognition of autonomous indigenous organizations. This mechanism has great promise for generating small locally controlled, ecologically sustainable and culturally appropriate development projects for the indigenous peoples of Latin America and the Caribbean.

B. *Policy and Institutional Issues.*—In 1993, the IDB convened a Task Force on Portfolio Management, to carry out a Wapenhans-like evaluation of portfolio performance and made recommendations to Bank management. The report notes for example, that "a review of 110 Project Completion Reports prepared by the Country Offices concluded that two-thirds had been successful." (Managing for Effective Development, p. 10). "These documents, however, did not recalculate internal economic rates of return using data collected on data collected after project completion." (*Ibid.*) That is, data on a basic gauge of whether or not projects have succeeded—whether or not projects met their appraised rate of return—are not available. Evaluation is largely of the completion of physical works, and whether projects were completed on time. One of the report's recommendations is that such data be collected in the future. Given that the Bank has committed itself in the eighth replenishment to greatly increased lending to the social sector (health, education, basic sanitation, job creation and so on), as opposed to its traditional emphasis on infrastructure, and that evaluation of project success in the social sector is far more complex than is the case for infrastructure projects, putting a priority on improved data collection and monitoring is of critical importance to ensure that the capital increase will be effectively used.

Unfortunate, the report draws conclusions that in our view could lead to *reduced* project quality and less stringent monitoring and evaluation of the IDB's portfolio—a huge red flag that raises questions about the advisability of proceeding with the replenishment until these issues are resolved. The report reiterates frequently statements such as, "The Bank needs to move beyond the idea that successful projects result from strict application of Bank rules and procedures and enforcement of borrower compliance with conditions" (*Ibid.*, p. II), or * * * rigid adherence to the rules and regulations * * * conspire to have an adverse impact on project implementation and execution." (*Ibid.* 31) The task force's preoccupation that the Board concern itself with policy and the future direction of the Bank, rather than exclusively with the minutiae of loan contracts is understandable, as is the desire to allow management sufficient flexibility to adapt to varying circumstances and new challenges.

It is, however, curious and disturbing that the task force appears to find Board involvement in ensuring that loan conditions are met, or that procedures (e.g., public bidding requirements) are followed in itself problematic. At a minimum, if the

task force finds the "control culture" of the IDB an obstacle to meeting future challenges, it should stipulate how the IDB is to address the problems in response to which the "control culture" arose, i.e., a bank in which the borrowers are the majority and the history of inefficient, patronage-driven public works, extensive.

The report also recommends that the Country Offices be given greater responsibility and autonomy. This could be a positive step, but only provided that mechanisms are guaranteed to ensure project quality and broad public consultation and participation. An example to avoid is the World Bank's 1987 reorganization, that granted greater autonomy to country offices but in practice reduced accountability for project quality, exacerbating the deterioration of the Bank's portfolio documented in the Wapenhans report. Certainly, the IDB's Brazil Country Office has played a critical role in the advances the IDB has made in public participation in project planning and implementation, and its experience should serve as a model for dealing with these issues throughout the Bank.

C. The Eighth Replenishment.—The Treasury must be commended for proposing and obtaining agreement on the inclusion of an information disclosure policy and an inspection function in the negotiating documents for the eighth capital replenishment. But a disclosure policy (which management plans to present to the Board in early 1994) which is as restrictive as the current (new) World Bank and ADB policies will be unacceptable, since these policies still keep confidential almost all documents generated in project preparation and appraisal in the period preceding loan approval.

There are two potential major concerns with the inspection function as proposed. First, it is not clear in the current text that parties who would potentially be affected by a proposed project could apply for redress before project approval. If the inspection function is to be anything more than the ex-post hashing out of already consummated tragedies, this point is key. Second, while the present language makes reference to the Bank's "operational policies," these policies do not address some of the most critical environmental and social problems that arise in IDB projects in the region. Bank policy for indigenous peoples issues and for forced resettlement is contained in "Strategies and Procedures with respect to Socio-Cultural Issues," issued by the Environment Management Committee (CMA), and is not an operational policy in the sense of having Board approval. To the extent that these procedures are not held to be binding on the Bank, and failure to comply with them does not constitute grounds for appeal to the inspection function, then the inspection function will be a relatively empty exercise.

It is also critical that the replenishment agreement contain language clearly stating that indigenous peoples are a priority for the IDB in the eighth replenishment. Indigenous peoples are a substantial minority of the region's population, in some countries a majority, and in others a majority of the rural population, and in all cases are the poorest populations in a region of chronic poverty. Failure to mention indigenous populations and their situation would be a major omission in a document that seeks to orient a new emphasis by the IDB on poverty and the social sector. Moreover, indigenous lands in both South and Central America overlap extensively with remaining forests, such that their land rights are intimately linked to the region's remaining reserves of biodiversity. Italy has proposed language on indigenous peoples for the replenishment agreement that should be strongly supported by the U.S.

D. Reorganization of the IDB.—Bank management is studying proposals for reorganization, which we understand will go forward in one form or another. With respect to environmental concerns, it is critically important that the IDB not lose its unique institutional advantage in dealing with environmental and social problems in project design. At present the IDB's Environment Management Committee (CMA) constitutes a high-level locus of accountability for these concerns, and with the technical backup of the Environment Division, can function as a screen for the worst problems before project approval. It would be deeply counterproductive should the IDB, in pursuit of a more streamlined operation, dilute the authority the CMA and the Environment Division, which together offer the possibility of effective quality control over projects. It is also important to note that while streamlining may be in order, as the Bank moves into social-sector lending, it will need greatly increased professional staff in the social (anthropological, sociological, grassroots development) area.

VI. ASIAN DEVELOPMENT BANK (ADB)

Many of the generic institutional criticisms that have been directed at the other MDB's apply also to the Asian Development Bank: prevalence of the pressure to lend over project quality, lack of transparency, accountability, and involvement of people affected by its projects, etc. The ADB has requested a doubling of its capital

this year. Governments are currently negotiating this, apparently with the expectation of agreeing to it by the time of the Annual Meeting in early May.

The Treasury and the U.S. Executive Director's Office deserve praise for their efforts to promote freer access to information, a Wapenhans-type review of project quality, and greater consultation with NGO's in the ADB. The new President of the ADB also appears to be open to considering institutional changes in these areas. But just as with the other multilateral banks, we urge the Congress and the Administration not to hand the ADB a blank check, but to use the financial leverage of the capital increase negotiations to ensure major improvements in project quality and decision making:

A. Action to Improve Project Quality.—The proposed call for a General Capital Increase must be seen in the light of the report released on January 28, 1994 by the ADB's *Taskforce on Improving Project Quality*. Known internally as the Schultz report, after Bank Vice President Gunter Schultz, the study acknowledged that only 60 per cent of the Bank's post-evaluated projects were "generally successful." By the Bank's own admission and by its criteria of economic/financial viability, social impact, implementability and sustainability, 40 per cent of all its projects were less than successful or outright failures. Just as in the World Bank, the report also acknowledged that annual performance data shows a declining trend in project performance.

We believe it would be unwise to finalize such a large capital increase without evidence of an effective action plan—one more convincing than, for example, the World Bank's efforts to date—to change institutional priorities at the ADB to make project quality an overriding concern. Such a plan should be developed in a transparent fashion, with review of drafts by, and consultation with member nations and NGO's.

B. More Transparent and Open Review of Policy Papers.—In recent weeks the ADB has released a plethora of new policy papers, in the context of its request for a capital increase. They include: a revised Forest Policy paper, a revised Energy Policy paper, a new Information Policy paper, a review of its past performance, and its "future directions" paper. In general, the process of obtaining timely comments from NGO's from both Developing Member Countries and donor countries has been difficult, because the papers have been distributed too late for their to be any sort of consultative process. When NGO's in Manila have asked the relevant ADB officials for these papers, the response has been mostly negative, although US officials have been extremely helpful in providing copies to NGO's in Manila and Washington. Only belatedly did the ADB, in response to U.S. pressure, has delayed the approval process for some of these papers to permit more input.

We urge that the capital increase not be finalized until the ADB has committed itself to procedures to ensure serious consultation with NGO's, especially from Developing Member Countries, concerning policy documents that will affect them and the constituencies they represent.

C. A More Open Information Policy.—We urge the Congress and the administration not to authorize a doubling of the ADB's capital without that institution's adopting a much more open information policy.

The Asian Bank recently issued a Working Paper on "Confidentiality and Disclosure of Information" (February 1, 1994) which frankly falls far short of the transparency and openness needed to promote sustainable development in a post Rio Earth Summit context. The Working Paper purports to emphasize "increasing disclosure of information," and although parts would constitute a modest improvement over what we perceive to be current practice, the focus mostly is on maintaining confidentiality and in justifying a continued adherence to procedures that block the affected and interested public from timely access to crucial information. It keeps almost all relevant information secret from affected populations and the public until the loan is approved, that is, during the time when the information would actually be of use in influencing project design in a constructive fashion.

D. Independent Inspection Panel or Appeals Commission.—The U.S. should promote during the capital replenishment negotiations the creation of an independent commission or panel to which populations affected by abuses or violations of ADB policy and procedures could appeal. We understand that the Administration is already considering proposals in this regard, and we commend the Administration for this initiative and encourage it to continue it vigorously.

E. Withdrawal of Support in Two Test Cases of Environmentally Destructive Projects: The Masinloc coal-fired thermal power plant (Philippines) and the Arun Dam (Nepal).—The Schultz report recommends, among other things, that a one-time spring cleaning of all projects under implementation should be carried out to restructure the portfolio of existing projects. One projects that is a prime target for such a spring-cleaning is the unsustainable, socially unacceptable and seemingly

nonimplementable Masinioc power project in the Philippines. In addition, both the ADB and the World Bank are currently planning to fund another environmentally, socially and economically unsound large dam, Arun III in Nepal, which is generating growing opposition within Nepal and internationally.

1. *Masinloc Project.*—Nearly four years ago, the Asian Development Bank's Board of Directors, approved a project for the construction of a two-stage 600 MW coal-fired power plant in Masinloc, Philippines. Co-financed by the Export-Import Bank of Japan, the project met with strong social opposition from the local residents, and construction has not yet begun in this beautiful, placid bay-side community.

The plant has no plans for a desulfurization device and ash from the plant is expected to have an impact on the marine biodiversity in the area as well as on the thousands of mango trees. The plant will also siphon off scarce local water resources from agriculture. Residents face near certain dislocation from their hither-to peaceful and sustainable existence as fisherfolk and harvesters of mangoes. The Philippine Department of Environment and Natural Resources recently upped their minimum emissions standards in an attempt to improve ambient air quality. The proposed plant would fall *below* this new standard.

The Philippine National Power Corporation (NPC) has been attempting to acquire land around the proposed site of the project. As of December 31, 1993, due to opposition to the sale of their lands, only 10 hectares, or about 10 percent of the total site area, had been purchased by NPC from local landowners. Meanwhile, local residents and nongovernmental organizations have reported the intimidatory presence of Philippine National Police Forces and other military troops in the area.

Four years have passed since the project was approved and construction of the plant has yet to begin. Rather than continue with the folly of pursuing this project, the ADB should not renew the latest deadline for acquiring the land—the newest deadline is June 30, 1994—and rather, search for alternatives to meet the energy needs of the Philippines. And alternatives do exist—Philippines has one of the largest reserves of geo-thermal energy in the world and natural gas reserves have been discovered in the Masinloc area. At the very least, if a coal-fired plant must be built, its siting must be revisited.

The ADB is now preparing the loan for the second stage of this project—Masinioc II. The US should oppose the project when it comes before the Board.

Masinloc has been, in fact, up to the ADB's intervention, an example of a successful involvement of outside bilateral aid agencies working in concert with local people. As in many rural areas in resource-based economies, the survival of the people is closely linked to the health of the natural environment. Masinloc residents enjoy a highly sustainable means of livelihood. They manage the San Salvador Fish Sanctuary which is an example of a successful community-based resource management project by fisherfolk. Such models must be emulated, not destroyed.

2. *Arun III*

a. *The Project.*—The Arun III hydroelectric project will be undertaken in the Arun valley, an isolated area in Nepal, which is home to many ethnic groups and has a high level of biodiversity. The dam will be constructed of concrete, and is projected to be 155 meters wide and 68 meters high. The ultimate capacity of the Arun III will be 402 megawatts (MW), by the year 2001. Construction of the access road will require 11 bridges and is slated to begin in 1994. There are presently no roads in the Arun valley. Arun III is one of three proposed dams in the area. The road is likely to lead to further road building in the area to connect the dam sites. The project is slated to be voted on by the World Bank Board (as an IDA credit) in April 1994. The Asian Development Bank Board would then vote on the project shortly thereafter.

According to the Asian Wetlands Bureau, a Malaysia-based Non-Governmental Organization (NGO), construction of the road and the dam is expected to have serious adverse impacts on land and other natural resources as well as on the economic, social, and cultural environment of the affected population. There are 450,000 people from 10 ethnic groups living in the Arun Basin. The Sannhuwasabha District, which will be directly affected by the project, is the home of 160,000 people. The impact is evident in the case of the Kumhals. The Kumhals have already lost land at Tumlingtar (located along the proposed access road, downstream of the slated dam site) due to the construction of an airstrip as well as a permanent road camp and are likely to lose more to the Arun III project.

The area threatened by the road and the dam is one of the last virgin forests in the Himalayas. The road would endanger a proposed national park, the Milke-Danda area, as well as the Hurure-Chichila cloud forest. Three sal forests would also be at risk, as the road be built directly through them. Another facet that has not been adequately examined is the cumulative impact of multiple feeder roads, and the extension of the access road to build the Upper Arun dam in the future.

A Nepalese NGO, the King Mahendra Trust, claims that due to the present slash and burn practices in the area, total deforestation is likely to occur in the Arun Basin within 15 years or less. The U.S. EPA makes the point that the access road, as well as construction of the dam, will accelerate the deforestation. Workers moving into the area will expand the pressure on the forest by increasing the demand for firewood for fuel, construction of worker camps and various "forest products." The road will make access to the forest easier, which is likely to increase the incidence of illegal logging. This raises the question: why is the World Bank funding a development project that will exacerbate the already existing problem of deforestation? Why not adopt a program of conservation and careful forest management, and support other, less destructive energy projects?

b. *Reckless Negligence of Less Costly Alternatives.*—Arun III would be one of the most expensive hydro power projects in the world. Presently, the cost of the project is estimated at \$764 million, which equals Nepal's national budget for one year. Most developed countries cannot afford to spend an entire year's budget on one project, let alone a developing country.

In comparing Arun III to alternative projects, the proposed dam is the least cost effective, as it has the highest cost per kilowatt hour. This project is the most expensive and destructive of the energy alternatives available to Nepal. The cost per kilowatt hour is not the only factor, but the environmental and social costs of the Arun III, when factored in, far outweigh those of the alternatives.

According to the investment plan of the Nepal Electricity Authority (NEA), \$100 million yearly will have to be dedicated to the Arun project for the next 12 years. This is to be compared with \$.2 million for micro-hydro schemes and \$.1 million for other projects for the same time period. The amount for smaller projects is woefully inadequate. The NEA is not examining seriously any options other than large-scale projects.

Several senior officials from the World Bank, the German lending agency, Kreditanstalt für Wiederaufbau, and the ADB question Arun III. They argue that the project is not in line with World Bank policies, including the promotion of private sector investments, the enhancement of local capacity for sustainable development, and least-cost energy investments.

VII. INTERNATIONAL MONETARY FUND

For more than a decade, NGO's, academics, economists, and local people from all around the world have testified about the devastating social impacts of IMF structural adjustment programs. For the past four years, environmentalists have questioned the negative impacts of SAP's on sustainable development efforts and documented the increasing environmental degradation caused by short-term, unsustainable economic development programs. As the list of case studies continues to grow, the call for policy reform grows more urgent.

NGO's commend the U.S. Congress for passing IMF reform legislation both in 1989, as part of the Foreign Aid Appropriation and Authorization Bills, and in the 1992 Freedom Support Act (Russian Aid Bill). The 1992 IMF reform legislation strengthens the language on the need for environmental impact assessment in the 1989 Foreign Aid Appropriation Bill. It requires the U.S.

Executive Director to promote the following changes:

1. Incorporation of poverty alleviation and reduction of barriers to economic and social progress into all Fund programs and consultations;
2. Incorporation of environmental considerations into all Fund programs and consultations;
3. Fund participation in the design and operationalization of a revised national income reporting system;
4. Creation of an audit system to review, on a country-by-country basis, the impact of the implementation of IMF-required or recommended policy prescriptions on poverty, economic development, and environment;
5. Insurance of policy options that increase the productive capacity of the poor;
6. Establishment of procedures for public access to information;
7. Development of procedures to measure the levels of military spending and incorporation of analysis and assessment of military spending in Fund consultations.

The 1989 reform legislation appears to have had an impact on the rhetoric used by the IMF Managing Director, Michel Camdessus. In his remarks before the United Nations Economic and Social Council in Geneva on July 11, 1990, Camdessus emphasized high-quality growth. He defined that as growth that is sustainable, concerned with the poor, the weak, and the vulnerable, which does not wreak havoc

with the atmosphere, with rivers, forests, or oceans, or with any part of mankind's common heritage. In February 1991, the IMF's Executive Directors met to discuss the establishment of an Environmental Unit. They rejected the idea. Instead, they assigned the time of "one and a half staff economists to study environmental issues. Reassigning one and a half Fund-trained economists to study environmental issues still falls far short of satisfying this requirement.

The discussions in the U.S. around the IMF quota increase and the IMF reform language, as part of the Freedom Support Act spurred the Executive Board of the IMF to give staff the mandate to take a few modest steps forward: (1) develop a greater understanding of the interplay between economic policies, economic activity and environmental change; (2) draw extensively upon the research and information from other institutions with environmental competence and responsibilities; and (3) use these findings to help staff carry out informed discussions with national authorities who may face difficult macroeconomic policy choices in the context of country's serious environmental problems.

As a result, the IMF organized a seminar on macroeconomic policies and the environment, May 12-14, 1993. The conference was successful in bringing issues to the table, but nothing has changed as a result. The IMF refused to consider setting up any mechanism that would enable the institution to deal with social and environmental concerns in a constructive manner.

The IMF continues to focus on narrowly conceived policy measures that aim to correct short-term balance-of-payments problems without regard for the long-term impacts of such measures. The IMF lacks the expertise to deal with social and environmental issues and operates within a framework that cannot accommodate the complexities of working with the widely differing economic situations in each country. The IMF's lack of country-specific policies has impeded the long-term stabilization of developing countries' economies, calling into question the political feasibility of IMF structural adjustment programs and, in general, the Fund's effectiveness in reaching its own economic goals. Many would argue that the IMF's continual disregard for people and the environment in borrowing countries has undermined the very foundations of sustainable development.

Implementation of the reforms is crucial to enable the IMF to design economic adjustment programs that target the roots of socio-economic crises and guarantee the ultimate goals of equitable and sustainable development as defined by civil society. In order to reach these goals, the design of development programs needs to integrate three essential components: macroeconomic reform, social sector investment and environmental resource management targets.

Given the IMF's dubious history of stabilizing countries' economies and its disturbing track record on social and environmental issues, we believe it would be unwise to entrust the Fund with the development of the social and environmental components of a sustainable development program. The IMF's role should be restricted to providing only technical assistance on fiscal and monetary policies and to mobilizing local and foreign capital to support the macroeconomic reforms. But, IMF staff should call upon the expertise of local experts to incorporate the social and environmental aspects of the reform program.

Furthermore, an independent evaluation department should be established to evaluate if the Fund's programs contribute to the goals of sustainable development. This unit should evaluate the IMF's performance by an expanded and more effective set of indicators: (1) Standards of human well-being should be quantified by the UNDP-created human development index (HDI), which offers a measure of development much more comprehensive than GNP as it combines measures of real purchasing power, education and health; (2) Natural resources accounts, which indicate the change in quantity, quality and value of the natural resources; (3) Employment measures and indicators of income distribution; (4) Promotion of environmentally and socially sustainable trade policies that allow for full citizen participation; and (5) Promotion of women's access to resources.

Currently, IMF adjustment policies would fail if evaluated by these standards. Too often IMF programs are impeding the efforts of civil society to reach equitable and sustainable development. The following reforms of IMF operations and policies are required to ensure, at a minimum, a neutral impact on social and environmental sector development:

1. Required consultation with social and environmental experts for all Fund programs at every stage to ensure that SAPs do not increase hardship on the poor or aggravate environmental destruction;
2. Development of an information policy that would guarantee increased transparency of IMF policy and programs with full public access to information;

3. Adjustment of Article V of the Articles of Agreement to allow greater participation of government ministries, peoples' movements and nongovernmental organizations in program design;

4. Changes in the terms of Enhanced Structural Adjustment Facility to allow for greater flexibility in achieving adjustment goals, to extend the time period of the programs, and make the loans more concessional;

5. Creation of an independent evaluation unit to review, on a country-by-country basis, the impact of the implementation of IMF-required or recommended policy prescriptions on poverty, economic development, and environment;

6. Increased IMF participation in the design and operationalization of a revised national income reporting system.

This year's proposed replenishment of the Enhanced Structural Adjustment Facility, provides the Congress with the unique opportunity to pressure the IMF to take the reforms seriously. Established in December 1987, ESAF's objective was to expand the access to concessional funding for low-income countries in order to support "especially vigorous adjustment programs." As of April 1993, ESAF was able to disburse only SDR 2.2 billion out of its total resources of SDR 6 billion.

Two main factors have deterred countries from applying for ESAF financing: (1) ESAF terms are less concessional than other available funds, such as IDA, and (2) the stringent conditionality of ESAF has made it politically impossible for countries to implement the adjustment program. Not only is it unlikely that countries will make use of ESAF but the IMF's approach to structural adjustment has proven to be ineffective in stabilizing borrowing countries' economies, further impoverished people and enhanced the destruction of natural resources. Congress should only support the recapitalization of the ESAF if there is significant evidence of changes in general IMF policies along the lines of the 1989 and 1992 IMF reform legislation cited above, longer timeframes, and more flexible conditions in ESAF programs.²⁴

VIII. CONCLUSION

The underlying institutional problem in the MDB's is that, in varying degrees, the pressure to lend, to keep loans flowing has overwhelmed too often all considerations of project quality, not just concerning the environment, but with respect to social issues, effective poverty alleviation, and in terms of meeting the most basic requirements of avoiding large time and cost overruns. This perverse institutional dynamic has been compounded by a fundamental deficiency in openness and transparency in decision making, a lack of accountability to people and communities affected by MDB projects. A great deal of the problem may lie with the unwieldy, highly centralized nature of the multilateral banks and the fact that their *modus operandi* is to lend huge sums to government agencies and bureaucracies in the developing world. These institutions are capable of promoting more sustainable approaches, but the record of a decade shows that progress has been to date limited and inadequate, achieved only through constant political pressure of the U.S. and occasionally through perceived threats to funding in the U.S. and elsewhere. A part of the problem may lie with the practice of member governments of the MDB's, both donors and borrowers, relying too excessively on MDB project lending for balance of payments support. While continuing to encourage reforms in these institutions, we believe it is time to examine the wisdom of further concentrating a still greater proportion of limited foreign aid resources in institutions with troubled records and manifest management problems. The U.S. needs to consider and encourage a greater diversity of approaches and institutions to deal with the complicated environmental, economic and social challenges of the post-cold war, post-Rio Earth Summit world.

Senator SARBANES. Thank you very much, sir. Mr. Reed.

STATEMENT OF DAVID W. REED, DIRECTOR, INTERNATIONAL INSTITUTIONS POLICY PROGRAM

Mr. REED. Thank you, Mr. Chairman, Senator Kassebaum.

²⁴ "Implementing Energy Efficiency Activities in Developing Countries, A Cross-Country Examination of Energy and Environmental Issues, Constraints and Options." World Bank Energy Sector Management Assistance Program, Activity Initiation Brief, April 1990, pp. 3-4.

Given the lateness of the day, I would like to summarize my testimony in three points, and then I would like to conclude with one recommendation.

First of all, I believe that significant, meaningful reforms have been undertaken by the World Bank to improve its environmental performance. Driven by criticisms primarily from the environmental NGO's, World Bank has increased its environmental staff tenfold and reformed major policy areas, including forests, water, and energy.

Its funding for environmental initiatives in fiscal years 1994 to 1996 is expected to reach \$25 billion. Despite these reforms, however, there remains a disturbing gap between the bank's rhetoric and its performance.

This gap is evidence most particularly in its mainstream project level investments. It is equally evident in regard to its public pronouncements about poverty alleviation and its long-standing inability to address structural causes of poverty.

The second point I would like to make is that the U.S. Government has played a decisive leadership role in bringing about these reforms. It has played a pivotal role in establishing the new international standards for measuring sound environmental performance.

It has helped the processes and the mechanisms of public accountability of these institutions. The U.S. Government's influence and leverage has been based on its historic role as the largest shareholder and contributor to these international financial institutions.

WWF is very concerned, however, with the growing arrearages of the U.S. Government, vis-a-vis the development banks. These arrearages are heavily weighted against the soft loan windows of organizations designed to help the poorest of the poor.

The situation, we believe, must be addressed immediately to prevent the reduction of the U.S. Government's reformist influence and to prevent erosion of the viability of these transfer mechanisms.

The third point I would like to make is that the growing scarcity and the declining quality of goods and services provided by the environment poses direct threats to the global economic system and our survival.

The frontiers imposed by environmental degradation on the economic and social opportunities of individual nations and the world at large are both real and imminent. It is in fact the severity of that threat that has generated new standards which were captured in the concept of sustainable development.

The World Bank is clearly not prepared to address these new challenges. But then again, neither is any other development institution at this time.

What is clear is that the World Bank, to meet the challenges of sustainability and to fulfill the objectives of the Peace, Prosperity and Democracy Act, must undergo major reforms.

Now, reforms at the World Bank and the regional development bank have thus far taken place on an incremental basis through the appropriations process.

Further incremental efforts to reform the bank's performance are warranted and can be helpful, and indeed we urge the government to continue pressuring for such reforms and to engage our allies in this effort.

However, a dramatic departure from this piecemeal approach is needed. Forging a long-term national policy is required. It is for this reason that WWF proposes the following recommendations.

We would propose that through the vehicle of your bill a commission be created under auspices of the Department of the Treasury.

Its mandates will be coordinate a major performance and policy review of the development banks with a view to assessing their ability to respond to the challenges of promoting sustainable development.

The outcome of this review, lasting no longer than two years, should lead to the formulation of a comprehensive policy regarding our government's relation to the international financial community into the coming millennium.

The outputs of this commission should be fourfold. First, it should identify a reform agenda for the MDB's, inclusive of their policies, project level investments, and procedures, to respond to the emerging challenges of sustainability.

Second, it should identify performance indicators by which the U.S. Government can measure the success of the institutions in reforming their lending practices.

Third, it should identify areas in which new institutional initiatives are needed. And fourth, the commission should identify specific steps that can be taken to enlist the support of other donor countries promoting these reforms in the MDB's.

Mr. Chairman, while coordinated by the Department of the Treasury, this commission would necessarily involve other federal government agencies, including the Department of State, EPA, USAID, the White House Office of Environmental Policy, and the President's Council on Sustainable Development.

Further, the commission should include representatives of the NGO community, the academic community, and development and environment think tanks.

The idea I have just proposed obviously will benefit from refinement and elaboration. I would like to reiterate our willingness to work with you and your staff, as well as your colleagues in the House and the administration to make it work. We would in fact be willing to explore ways of sharing the cost of such a review so as to make it a joint endeavor between the federal government and the nongovernmental sector.

Whatever format we may decide on, Mr. Chairman, the clear objective is to establish an integrated strategic approach to issues of foreign assistance, sustainable development and the role of the international financial institutions, for indeed it is only with such an approach that we will be able to make rational, long-term decisions about U.S. national and global interests.

Thank you.

[The prepared statement of Mr. Reed follows:]

PREPARED STATEMENT OF DAVID W. REED

Chairman Sarbanes and members of the Subcommittee, my name is David Reed. I am Director of the International Institutions Policy Program of the World Wide Fund for Nature, (WWF-International) and today I will speak on behalf of World Wildlife Fund (WWF), the U.S. affiliate of the WWF family of organizations. With offices in nearly seventy countries and five million registered supporters worldwide, WWF is the largest private organization working worldwide for the conservation of nature. On behalf of WWF, I would like to congratulate the Subcommittee for its foresight in opening these hearings on the performance of the international financial institutions, and I thank you for the invitation to offer testimony.

In my remarks today I hope to convey the conviction that we are in the midst of a historical shift in the development paradigm which governs the goals of the World Bank and other development institutions—a shift with fundamental implications for the future role of these institutions.

In making this case, I will begin with a brief outline of the historical antecedents that have brought the World Bank to its present crossroads, with an explanation of how the Bank's original mission is no longer adequate to today's imperatives. I will attest to the valuable role of nongovernmental organizations in prodding the Bank to begin a series of significant but as yet incomplete reforms, with attention to the unsung but complementary role played by the U.S. Government in this process.

In view of this history and progress, I will describe why WWF believes that the United States' active involvement in the World Bank holds the greatest promise for moving the Bank further in the direction in which it must evolve if it is to play a constructive role in realizing the goals of sustainable development. Finally, I will provide a set of recommendations that WWF believes will maximize U.S. influence in ensuring that the Bank and other institutions meet their potential as constructive players in this new agenda.

EFFORTS TO REFORM THE INTERNATIONAL FINANCIAL INSTITUTIONS' ENVIRONMENTAL PERFORMANCE

When the Bretton Woods institutions were formed in 1945, environmental protection simply did not figure in the definition of U.S. national security interests or in the security interests of other nations. The primary concern of U.S. national security interests in the post-war period was maintaining the country's geo-political (defense) integrity and rekindling economic vitality and stability in a war-torn world. In that context, the Bretton Woods institutions, crafted largely by U.S. policy-makers, were considered to be the principal multilateral mechanisms for reestablishing a stable international economic climate in which the market economy, and U.S. interests, could thrive.

Fifty years later, a fundamental shift has taken place in the definition of national interest. Today it is widely understood that safeguarding a country's environmental patrimony, and that of the planet as well, is critical to national interests. The new status accorded the environment comes directly from the growing seriousness of global environmental threats, and from the very real constraints placed on the economic activities and development options of virtually every country by environmental degradation.

The process of making the World Bank understand that it must operate in more environmentally-sensitive ways is a continuing process, but traces its origins in the early 1980's. At the beginning of the 1980's, the World Bank refused to accept the proposition that an intimate relationship between economic growth and environmental degradation existed, much less that such degradation could be linked to its own operations.

It was in this context that a group of nongovernmental organizations (NGO's) began seeking ways to reform World Bank practices and activities to make them take in account environmental concerns.¹ The reform campaign, directed primarily but not exclusively at the World Bank, began in the Washington-based NGO community in the mid-1980's and expanded to include NGO's from other industrialized and developing countries. The criticisms of the campaign, developed through analysis of specific World Bank projects (for example, Polonoreste, Côte d'Ivoire, Narmada), identified Bank environmental shortcomings at two discrete levels:

¹ See David Wirth, *Environmental Reform of the Multilateral Development Banks: A Report to the Charles Stewart Mott Foundation*, C.S. Mott Foundation, 1992, and Bruce Rich, *Mortgaging the Earth: the World Bank, Environmental Impoverishment, and the Crisis of Development*, Beacon Press, 1994.

(1) issues of "process," related to the Bank's general "way of doing business." These issues focussed on the Bank's arrogant, top-down approach, inadequate access to information and the lack of guidelines for public consultation and participation in Bank project proposals.

(2) issues of policy, dealing with the absence of environmental consideration in the policies governing Bank operations. Bank policies in structural adjustment and infrastructure programming, for example, consistently ignored the environmental dimension and consequences of such activities.²

The reform campaign, in cooperation with the Congress, has been instrumental in bringing about two very significant changes in the environmental policy of international institutions:

First, these efforts have helped establish methods of public scrutiny and accountability of multilateral development institutions, with the following specific actions:

(1) In 1989, the Bank adopted its Operational Directive on Environmental Assessments (OD 4.01). Environmental impact assessments help determine potential environmental consequences early in the project cycle, and prescribe procedures for addressing those potential consequences. The Bank's Operational Directive also provides guidelines for consultation of interested sectors of the society.³

(2) In 1993, the Bank adopted two new policies regarding access to information and the creation of an appeals mechanism. The new policies directly addressed specific criticisms raised by the reform campaign. In the case of information, the new policy expanded the categories of documents to be made available and created new mechanisms for distribution of these documents. The appeals mechanism, potentially the most significant of all Bank reforms, will allow outside groups with grievances pertaining to Bank programming to make their case directly to an independent body appointed for such purposes. It will ease the task of those seeking to ensure the Bank backs up its words with deeds.⁴

Second, NGO's have been pivotal in establishing the very standards by which multilateral institutions are held accountable for their environmental performance by the public. These efforts have yielded the following changes:

(1) In 1991, the Bank developed policies governing its programming in relation to forests and indigenous populations, replacing policies that had been strongly criticized by the NGO community worldwide. For example, NGO lobbying, based on an analysis conducted by the WWF, had led to a one-year moratorium on lending for forest projects under the old policy pending its review and revision. The new forest policy, responding to NUO criticisms, now prohibits logging in primary forests.⁵

(2) In 1992-93, the Bank developed policies for the energy and power sectors, as well as for water resources. These policies, while objectionable on many points of omission (e.g., insufficient attention to demand-side management, etc.), represented one of the first serious attempts by the Bank to tackle issues with complex environmental and economic linkages.

(3) As part of the IDA9 replenishment agreement, the Bank is mandated to assist all IDA countries in the preparation of National Environmental Action Plans (NEAPs). The Bank has approved an Operational Directive on Environmental Action Plans to guide their development. These NEAPs are critical in identifying national environmental priorities which need to be integrated into development planning, and are of great assistance in mobilizing and coordinating donor assistance to these countries.⁶

In addition to these process and policy changes, the Bank has also steadily increased the levels of funding devoted to environmental programming, in areas as varied as the establishment of environmental regulatory frameworks and sewage treatment facilities. FY 1993 spending on environment, which totalled about \$2 billion, was nearly double that of FY 1992 and represented a thirty-fold increase over lending five years before, and for FYs 1994-96, investments for environmental ini-

² See testimony of Environmental Defense Fund, National Wildlife Federation, and Friends of the Earth before the Subcommittee on Foreign Relations, Export Financing, and Related Matters, U.S. House of Representatives, March 1, 1993.

³ World Bank, *The World Bank and the Environment—Fiscal 1993*, p. 155.

⁴ Hilary French, "Rebuilding the World Bank," in *State of the World—1994*, Worldwatch Institute, p. 164.

⁵ *Ibid.*, p. 170.

⁶ World Bank, *The World Bank and the Environment—Fiscal 1994*, pp. 19 and 155.

tiatives are expected to reach \$25 billion. In terms of staffing within the Bank, there has been a ten-fold increase in environmental professionals over the same time period. The Bank has also reorganized its central units, creating a Vice-Presidency for Environmentally Sustainable Development and bringing under it three key technical departments (Environment; Agriculture and Natural Resources; and Transport, Water, and Urban Development). In addition, a new division for Social Policy and Resettlement has been established within the Environment Department.⁷

Recognition of these improvements does not imply a wholesale endorsement of the World Bank's environmental performance. There remains a disturbing gap between the Bank's rhetoric and its actual performance on mainstream project-level investment. This inconsistency is reflected in the perfunctory disregard for environmental issues by Task Managers in preparing investment projects. And it is manifest in the defensiveness and denial by Bank management and staff when confronted with direct evidence, derived from local analysis, of the negative environmental impact of specific operations.

The gap between rhetoric and performance is also reflected in the Bank's renewed public pronouncements reaffirming its commitment to poverty alleviation, which, in turn, has a direct impact on sound environmental management. In practice, the Bank's continued inability to move beyond its "trickle down" development approach and tackle the structural causes of poverty and address the political economy of social inequities, belies many of its public pronouncements.

Although the reform campaign can take a great deal of credit for specific environmental changes at the Bank, it would be inaccurate to suggest that the changes that have occurred at the World Bank were exclusively the result of NGO pressures. Growing international awareness of these essential linkages between economic development and the environment has also made donors more sensitive to the impact of development assistance on natural ecosystems. In fact, it is possible to say that none of the changes highlighted above could have been possible without the active support of the U.S. Government. The U.S. Government has played a critical role in changing the processes and policies of the World Bank. It has been a leader in stressing the importance of reform to decision-makers within the Bank, and it has been a leader in enlisting the support of the donor community in prodding Bank officials to undertake these reforms. Both Congress and this and previous administrations can take credit for forcing these institutions to change.

Examples of Congressional and executive branch leadership abound. Congressional legislation mandating the creation of an Early Warning System (EWS) to monitor projects of environmental concern, and requiring U.S. Executive Directors to vote against any proposed project for which environmental assessments were not received, played a catalytic role in the development of the Bank's information and environmental assessment policies. Similarly, the Treasury Department's diligence in pursuing the creation of an appeals mechanism within the World Bank helped make it a reality.

Another important role the U.S. Government has, played has been in ensuring that the policies and processes developed and adopted by the World Bank are complemented by similar exercises in the regional development banks. All three regional banks have finalized, or are in the process of finalizing, portfolio management reviews analogous to the World Bank's Portfolio Management Task Force exercise (the so-called "Wapenhans Report"). Similarly, at least two of the regional banks are developing independent oversight entities resembling the World Bank's appeals mechanism. Again, much of the credit for these measures lies in the efforts of the U.S. Government's representatives within these institutions.

Mr. Chairman, it is critical that such leadership for constructive change continue and even accelerate. A reduction in the U.S. Government's contribution to the multilateral development banks, and thereby a concomitant reduction in the U.S. Government's reformist influence, would run contrary to the U.S. and global interests. Simply stated, the United States has been able to use its influence to great effect in making the MDB's more responsive to environmental considerations. That is why WWF believes that losing its position as the largest shareholder in the World Bank and other MDB's would curtail the U.S. Government's ability to further strengthen the environmental performance of these institutions and, as a consequence, would weaken the global environmental fabric on which this country and humankind depends.

The U.S. leverage over the Bank's performance has been compromised by our unwillingness to pay. WWF is particularly concerned that the arrearages currently

⁷*Ibid.*, and Katrina Brandon, "Environment and Development in the Bretton Woods Institutions" (Paper prepared of the Commission on the Future of the Bretton Woods Institutions, August 15, 1993)

held by the United States against the MDB's are heavily weighted against the "soft loan" windows of most of these organizations, which provide highly concessional loans and grants to the "poorest of the poor." These include the International Development Agency (\$309 million), the Asian Development Fund (\$265 Million), the Multilateral Investment Fund (within the IDB \$35 million), and the African Development Fund (\$62.2 million). Such arrearages, dangerous in themselves, can trigger similar cutbacks by other donors, who are entitled to do so under the various replenishment agreements, and may eventually threaten the viability of the instruments themselves. Any reduction in the resources available to these instruments threaten direct and serious consequences on global poverty and thus poverty-induced environmental degradation.⁸

THE CHALLENGE OF SUSTAINABLE DEVELOPMENT

I would be misleading this Committee if I were to leave the impression that the reforms being undertaken at the World Bank are adequate to address the environmental challenges of today or of the remainder of this decade, or, for that matter, even to respond adequately to the goals the administration has just proposed in the "Peace, Prosperity, and Democracy Act of 1994."

Serious failures regarding the Bank's environmental performance must still be addressed, most importantly in translating improved policies into project level investments. However, those implementation shortcomings must be viewed in the context of major policy and process improvement and the building of perhaps unequalled technical capability on environmental management within the Bank. The growing scarcity and declining quality of the goods and services provided by the environment pose direct threats to the economic system that now reaches into all corners of the globe. The frontiers imposed by environmental degradation on the economic and social opportunities of individual nations and the world at large are both real and imminent. It is, in fact, the severity of that threat which has generated new normative standards by which all social and economic agents must now measure themselves; standards which are captured in the notion of sustainable development.

The "Peace, Prosperity, and Democracy Act," in its opening the statement of policy, has addressed the normative requirements of sustainable development as agreed to in principle during the 1992 United National Conference on Environment and Development. One highly pertinent example regarding the difficulty of translating the normative standards of sustainable development into operational terms regards structural adjustment. A decade ago, policy-based lending was viewed by the World Bank and development agencies as simply a matter of eliminating economic distortions and improving efficiency so that a country could stabilize its economy and regain competitive footing in the global market place. After documenting the devastating impact that adjustment had on the most vulnerable sectors of many low-income societies, this deficient, one dimensional perspective on restructuring national economies gave way to a more inclusive approach to the adjustment process that addressed the most flagrant social problems associated with the economic reforms. More recently, in fact, largely owing to the work of NGO's, Bank policy makers have begun to recognize that structural adjustment also has direct and important consequences for the environment. Those impacts can be positive, often times negative, but, given that the environmental dimension has been regarded as irrelevant to the adjustment process, the potential benefits have simply not been realized. Slowly, the World Bank, has begun accepting the premise of the environmental impact of adjustment lending.⁹

Today, however, even that "environmentally sensitive" approach to adjustment is inadequate and deficient. The social, economic and environmental constraints now looming before national policy makers obliges them pose the question: Will the structural reforms being undertaken actually help place adjusting economies on a more sustainable development path? Or, instead, is economic restructuring to improve economic efficiency in the short run while undermining the longer-term sustainability of these countries? To this question, there are no clear answers, nor even the methods for accurately assessing impacts on long-term sustainability. But the need to find answers is urgent.

I use this example, Mr. Chairman, to illustrate the difficulty in implementing the concept of sustainable development so that it reflects the complexities of individual countries. Has the Bank been able to make the transition to addressing these new

⁸Source: Department of the Treasury, Office of Multilateral Development Banks.

⁹See David Reed, *Structural Adjustment and the Environment*, Westview Press, 1992, and Wilfrido Cruz and Robert Repetto, *The Environmental Effects of Stabilization and Adjustment Programs: the Philippines Case*, World Resources Institute, 1992.

challenges? Clearly not. But then, again, neither has any other development institution to date. We are, in fact, in a transition period between two major development paradigms. Our standards and indicators of development are currently undergoing a fundamental change.

The potential contributions of the World Bank in meeting the new challenges of sustainable development during the rest of this decade and beyond are far from certain. Unquestionably, the World Bank continues to function as the *de facto* coordinator of donor country development activities. Further, it continues to establish normative standards against which other development agencies measure their own work. Indeed it will and should continue to serve those two functions in the coming years. Moreover the World Bank has demonstrated its ability to provide specific and unique contributions relevant to future development needs including:

- using policy-based lending to encourage further economic reforms in middle-income countries. This function will remain a viable contribution only to the degree that the Bank's policy-based lending in middle-income countries significantly expands its objectives and criteria to include the social and environmental dimensions of economic restructuring. The Bank's proven inability to understand and address the social dimension of economic restructuring in low-income countries constrains its viability in applying its technical resources unless conducted in direct partnership with development agencies capable of compensating for the Bank's own weaknesses;

- promoting sectoral reforms in conjunction with project-based lending in middle-income countries. The Bank's technical resources in analyzing and promoting reforms in inefficient and stagnant sectors of developing country economies, coupled with specific project-based activities should continue to be an area of Bank comparative advantage. This "hybrid lending" must be carried out in the context of strengthened "country ownership" and local capacity-building; and

- financing improvement of environmental management and infrastructure in low- and middle-income countries. To the degree the World Bank is able to work with governments in developing national environmental action plans (NEAPs), to promote their integration into development planning and thereby identify action priorities, its potential as a major contributor to environmental improvement should be encouraged.

While the World Bank has a diverse and impressive array of institutional resources, its very size, corporate psychology, present internal incentives, not to mention its senior management, have become disadvantages of such proportions that even its proven assets are of questionable value in responding to the challenges of sustainable development. Sustainable development requires, perhaps above all else, the ability to understand and manage change on the local level. This is precisely the level at which the Bank has demonstrated insensitivity and incompetence. Its delivery mechanisms and approaches simply cannot respond to the needs of local communities. Therefore, if the World Bank resources are to be relevant to the new challenges they must be mobilized in concert with comparative strengths of other institutions and groups. We believe the World Bank must begin to forge new relationships in the three following areas, where the Bank's unique attributes can work in combination with the assets of other organizations to achieve more lasting success:

- poverty alleviation: the Bank's one dimensional emphasis on economic growth and its trickle down approach, coupled with its historical inability to address structural causes and social dimensions of poverty, require that the Bank's involvement be conditioned by the priorities, criteria, expertise and indicators of other partners in order to ensure a lasting impact on poverty alleviation. Operational partnerships must be forged with specialized agencies of the United Nations development system, local agencies and organizations that have the ability to identify and promote changes in structural and institutional constraints that perpetuate social inequities;

- infrastructure investments: while having acquired extensive technical capacity in infrastructure development, the Bank's shortcomings in addressing the social and environmental dimensions of these major investments requires that all future activities be carried out in close coordination with partners who understand and can manage the nontechnical aspects of infrastructure development. Proposed Bank projects requiring the potential resettlement of several million people underscore the urgency of curtailing the Bank's unilateral activities in major infrastructure projects; and

- project-based lending having local impacts: the Bank's technical resources can provide a strong technical basis for developing local activities. Their social

and environmental limitations require that a new partnership be formed, and a new set of accountabilities be established, to supervise implementation and monitoring of Bank-funded projects. Partners must include local NGO's and communities.

Ultimately, the viability of the World Bank, the largest source of development assistance, to address the new challenges of sustainability will depend on its ability to:

- create new inter-institutional networks with other development agencies at all levels and in all stages of the project cycle;
- forge new partnerships with the local beneficiaries of development assistance in design, implementation, and monitoring of development activities;
- use its resources, in concert with other agencies and institutions, to build new local capacity so that these local institutions can more effectively guide and implement development activities; and
- encourage the formation of new, innovative development assistance delivery mechanisms both within and outside of the Bank itself.

RECOMMENDATIONS

In short, the World Bank and the regional banks are not yet prepared to meet the challenges of sustainable development we presently face. We are in a transition period of historical proportions where the blinders of the Cold War have been stripped away, the facile optimism of world development has been discarded, and the requirements of creating a decent standard of living while protecting this planet's environmental patrimony, are emerging with alarming clarity. Neither the policies nor the institutions of the past are yet designed to reflect those requirements. Indeed, our current state of knowledge—to say nothing of our political will—may not be adequate to the task.

It is our conviction, Mr. Chairman, that we cannot casually disengage from the urgent requirement of responding to demands for sustainable development. We cannot idly sit by and watch to see if the World Bank and the regional development banks are capable of rising to the new challenges posed by sustainability. In consonance with the objectives established in the "Peace, Prosperity and Democracy Act," the U.S. Government should be at the forefront of establishing the reform agenda for the MDB's, of determining whether they are able to adjust to the emerging demands of sustainability, and to set forth a new set of institutional and policy initiatives that will allow this government to maintain its mantle of leadership in the international community.

Reforms, thus far, have come on an incremental basis through the appropriations process and at the cost of great energies of Congress, the Executive branch and the NGO community. Further incremental efforts to reform the Bank's performance are warranted and can be helpful. We urge the U.S. Government to continue pressing for such reforms, and to engage our allies in these efforts. However, a dramatic departure from this piece-meal approach is needed. Forging a long-term national policy is required.

To this end, WWF proposes that, through the vehicle of your bill, a Commission, to be coordinated by of the Department of the Treasury, be created. Its mandate would be to coordinate a major performance and policy review of the development bank system with a view to assessing their ability to respond to the challenges of promoting sustainable development. The outcome of this review, lasting no longer than two years, should lead to the formulation of a comprehensive policy for guiding our government's relation to the international financial community into the coming millennium.

Its outputs should be four-fold. First, it should identify a reform agenda for the MDB's, inclusive of their policies, project-level investments, and procedures that are required to respond to the emerging challenges of sustainability. Second, it should identify performance indicators by which the U.S. Government can measure the success of the institutions in reforming their lending practices. Third, it should identify areas where new institutional initiatives are needed. Specifically, it should identify where the limitations of existing institutions are such that new venues and development approaches must be conducted outside present institutions. Fourth, the Commission should identify specific steps that can be taken to enlist support of other donor countries in identifying and promoting these reforms in the international financial institutions.

Within the context of these four outputs, the Congress and the administration can determine on a regular basis the utility of the MDB's as partners in promoting the objectives enunciated in this bill.

While coordinated by the Department of the Treasury, the Commission would necessarily involve other Federal Government agencies including the Department of State, the EPA, USMD, the White Office of Environmental Policy and the President's Council on Sustainable Development. This policy formulation obviously has to be conducted in coordination with our bilateral development assistance program. Further, the Commission should include representatives of the NGO community, and the academic development and environment think tanks.

Mr. Chairman, the idea I have just proposed will benefit from refinement and elaboration. I reiterate our willingness to work with you and your staff, as well as your colleagues in the House and the administration, to make it work. We would be willing to explore ways of sharing the cost of such a review so as to make it a joint endeavor between the Federal Government and the nongovernmental sector. Whatever format we may decide on, Mr. Chairman, the clear objective is to establish an integrated, strategic approach to issues of foreign assistance, sustainable development and the role of the international financial institutions. It is only with such an approach that we will be able to make rational, long-range decisions about U.S. national and global interests.

Senator SARBANES. Thank you very much, sir. Tom, we would be happy to hear from you.

**STATEMENT OF THOMAS C. DAWSON, FIRST VICE PRESIDENT,
MERRILL LYNCH & CO.**

Mr. DAWSON. Thank you, Mr. Chairman.

Senator SARBANES. It is nice to have you back before the committee.

Mr. DAWSON. It is nice to be back. Thank you, Mr. Chairman and Senator Kassebaum. I would like to quickly summarize my statement, noting by way of initial disclaimer that I am here on behalf of myself, not on behalf of my employer, who nonetheless kindly made me available for today.

This is a very good time to be holding these hearings, not only because you face the importance authorization and appropriations requests, but the role of the institution, particularly the fund at the bank, has been very much in the news.

Until a few days ago, some were asking the question, "Who lost Russia?" and wondering whether it was not the bank or the fund.

Now others might be thinking, "Thank goodness we did not pour money in there."

It is my opinion that neither the question nor the thought, to use current vernacular, quite gets it. In my view, we need to ask what do we and what should we expect of the international financial institutions, not only in the Russian context, but elsewhere.

While the Executive Branch has the responsibility for managing the U.S. relationship with the IFIs, this committee has a clear obligation to consider such issues before making its decisions.

My view is that while the institutions can be and generally are strong contributors to growth and development, we should not oversell their role. Ultimately, the greatest contributor or impediment to growth of economic policy is the economic policies of the countries themselves.

And indeed, to differ with a member of the previous panel, the greatest source of funding for all of these endeavors is indeed the private sector, as has been seen in the last several years in terms of the amount of private money flowing into countries not only in this hemisphere but elsewhere.

Frankly, those who blame the international institutions for losing Russia or failing to support reform have often lost sight of this

important point. Where there has been successful reform, the common theme, I believe, has always been a government strongly committed to reform with a clear, usually ambitious, program.

Without dwelling on this, I would cite as examples Mexico, Argentina, more recently India, the Czech Republic, and the Baltics.

Senator Kassebaum asked Larry Summers for his views on the recent Russian summit meeting, and I would like to throw in my two cents on a couple of those aspects.

Those who thought that massive assistance, human, technical or financial, would make up for a weak political commitment to reform have, I think at this point, been proven wrong.

But we need to keep this in mind as we look at how we might go forward. In the case where the political system does not support a strong stabilization effort, we just simply cannot expect the institutions, financial institutions, to somehow make up for this shortfall.

There is clearly a role for the institution, even when reform appears stalled. In fact, a major advantage of these institutions is that they can stay engaged in countries even when there are bilateral disputes that may interfere with our own assistance efforts.

And this is the case that I think came up earlier and as you look at Russia at this point. Technical assistance by the institutions, as well as targeted to development bank lending in the Russia context in particular, I think would still be quite appropriate.

I would like to turn briefly now to what I think have been some of the frustrations felt in both the Executive and Legislative Branches, including by my colleagues at the table here, whom I have dealt with in the past as we all exercise either oversight or management roles, vis-a-vis the institutions.

I have worked in three administrations, including the present one for eight months, in all of which at times were frustrated in their dealings with the IMF or the World Bank. And I asked, sometimes publicly, why won't the fund or why won't the bank do this or do that.

There are several answers. Sometimes, believe it or not, the United States might actually be wrong. This in my view has not generally been the case, but it is possible and it has in fact happened.

A more common explanation and one which we need to keep in mind, which Bruce touched on, is that while the U.S. is the major shareholder in these institutions, and in my view still has the greatest influence of any member, the institutions are multilateral and require something approaching a consensus for things to happen.

At one level, this means the U.S. must work with the other G-7 countries to get their support. It also means that we need to work harder with the broader membership of the developing countries and smaller industrial countries to get their support.

This has happened and I would note the special programs developed in the wake of the Gulf crisis as an example that were successful in this regard.

I would note for the benefit of my colleagues from the environmental community that one of the reasons they have not been as successful as they would wish, and indeed even as I would wish,

is that the necessary consensus building has not taken place, in part, one might argue, because there is no consensus, and I think they would probably agree with me on that and I would agree, in a sense, that a greater leverage at this point might be to work on these other countries to support us in this regard.

Finally, I would note that these are after all financial institutions and they are naturally cautious in submitting large sums of money. The debt crisis years are only shortly past us.

And we should not forget that these institutions still have arrears of their own. These are different from the arrears that the U.S. has to these institutions. These are overdue loans, and it is reasonable to expect that these institutions would be reluctant to throw in money where they think the risks are great.

Finally—and this time I really mean it—I would like to put in a plug for the administration's request for \$100 million authorization and appropriation for the so-called ESAF successor.

Almost 40 other countries, the majority of them developing, have made commitments to support this lending program which focuses on the poorest countries of sub-Saharan Africa, Asia, Latin America, and the former Communist nations.

The request for U.S. contribution is only five percent of the total of \$2.1 billion being committed to the ESAF successor, which will provide in loans \$7 billion to almost 80 eligible countries.

These are countries that simply cannot afford the market-based rates of normal fund lending, and I would urge you strongly to support this, what I think is not only a good investment, as two under secretaries said, but I would also argue a very modest investment considering the contributions by other governments that are even more hard pressed than we on the financial front.

Thank you, Mr. Chairman and Senator Kassebaum.

[The prepared statement of Mr. Dawson follows:]

PREPARED STATEMENT OF THOMAS C. DAWSON

Thank you, Mr. Chairman. I would like to start by noting that I am here in my personal capacity and not necessarily representing the views of my employer, Merrill Lynch & Co., Inc. At the same time I would note that the time I have spent in the private sector since leaving the position I held at the IMF has provided me with both the opportunity for reflection on the role of the International Financial Institutions (IFIs) and some chance to see them at work in the emerging markets.

This is a good time to be holding these hearings, not only because you face important authorization and appropriation requests but because the role of the institutions, particularly the International Monetary Fund and the World Bank, has been very much in the news not only in Russia but also in the rest of the former Soviet Union and indeed all of the so-called emerging markets. Until a few days ago some were asking the question 'who lost Russia' and answering it by pointing the finger at the IMF or World Bank. Now others might be thinking 'thank goodness we didn't pour money in there.' In my opinion neither the question nor the thought, to use current vernacular, 'gets it.' In my view we need to ask what do we and what should we expect of the international financial institutions, not only in the Russian context but elsewhere. While the Executive Branch has the responsibility for managing the U.S. relationship with the IFIs, this committee has a clear obligation to consider such issues before supporting continued or additional funding of the institutions. I should note that I do support the pending requests for the IFIs and would particularly like to endorse the administration's request for funding of the ESAF Successor at the International Monetary Fund. I'll return to this in a moment.

My message, or view, is that while the institutions can be, and in my view generally are, strong contributors to growth and development in the developing countries we should not oversell their role. Ultimately the greatest contributor, or impediment, to growth is the economic policy of the country itself. No amount of advice

or money can make up for weak economic policy (or weak governments) in the developing countries. Frankly, I think those who more or less blamed the IFIs for 'losing' Russia or failing to support reform too often lost sight of this obvious point. If you look at the 'success cases' in economic reform the common theme in all has been a government strongly committed to reform with a clear, usually very ambitious, program. Without dwelling on the point I would cite as examples Mexico, Argentina, India, the Czech Republic, some in the Baltics.

Some people seem, or at least seemed in the case of Russia, to think that massive assistance (human, technical or financial) could make up for a weak political commitment to reform. While there might on occasion be a little such substitutability, its limits quickly are reached. Thinking that the IMF or World Bank somehow could provide decisive help for the reformers to win their internal political battles is just naive. I'm not saying you can't have a good argument over whether an opportunity was missed. I'm just saying that in the case of Russia I think the evidence is clear. The political system would not support a strong stabilization effort. This has also been the case in many other countries. This does not mean the institutions should turn their back on countries until conditions are optimal. There is clearly a role for the IFIs even when reform appears stalled. In fact a major advantage of these multilateral institutions is that they can stay engaged in countries even when there are bilateral disputes that interrupt other assistance efforts. Of course, this can be upsetting at times to us when we see the institutions dealing with countries that are subject to bilateral sanctions.

In the case of Russia in particular technical assistance efforts by the IFIs should continue assuming the Russian Government wants such help as I suspect they do. Targeted development bank lending programs to support private sector development or worthy regional projects or reform efforts would also seem entirely appropriate. I would draw the line at more broad-based structural lending if a balanced macro policy of the sort usually embodied in an IMP-supported program is lacking.

I would like to turn briefly to what I think are some of the frustrations felt in both the Executive and Legislative branches in exercising their oversight or management roles vis-a-vis these institutions. While this is not uniquely a U.S. concern I think it is most apparent in the U.S.-IFI relationship. I worked in three administrations, all of which at times were frustrated in their dealings with the IMF or World Bank and asked, sometimes publicly, 'why won't the Fund or Bank do this or that more quickly.' There are several answers. Sometimes, believe it or not, we might actually be wrong. This in my view was not generally the case but it is possible and has in fact happened.

A more common explanation, and one which we need to keep in mind, is that while the U.S. is the major shareholder in these institutions and in my view has the greatest influence of any member, the institutions are multilateral and require something approaching a consensus for things to happen (whether lending to a country or cutting back on perks). At one level this means the U.S. must work with the other G-7 countries to get their support since among them they control close to half the votes in the Fund and Bank. It also means that we need to work with the broader membership, developing countries and smaller industrial countries, to get their support. This has happened. I would cite the new lending programs set up by the IMF in the wake of the debt crisis, the Gulf war and the collapse of the former Soviet Union (the ESAF, the so-called Oil Element and the Systemic Transformation Facility). In the latter two cases the institution responded to a largely U.S. initiative that was supported by not only the G-7 but by the broader membership. I would note for the benefit of my colleagues from the environmental community that one of the reasons they have not been as successful as they would wish with these institutions is that the necessary consensus building has not taken place (or in my view there is no consensus). This also explains why the U.S. and some other countries have often failed in their efforts to cut back on perceived excessive salaries and perks. I have substantial personal scar tissue on both the environmental and benefit issues.

Finally, I would note that these are after all financial institutions and they naturally are cautious in committing large sums of money. There are still substantial arrears to these institutions stemming largely from the debt crisis years and while the overdues are being worked off fairly successfully there is a justifiable reluctance to over-commit to countries where the risks appear great. I would note that most of the present arrears cases stem from loans where commitment to reform was weak and, in a number of cases, where major governments pressed the institutions to make the loans in the first place. A lesson that should be kept in mind now, in particular, when major governments are all feeling budgetary pressure and look to the IFIs to pick up some of the aid burden.

Finally, and this time I really mean it, I would like to put in a plug for the administration's request for \$100 million authorization and appropriation for the so-called ESAF successor. Almost forty other countries, the majority of them developing, have made commitments to support the lending program which focuses on the poorest countries of sub-Saharan Africa, Asia, Latin America and the former Communist nations. The request is for \$100 million as the U.S. contribution to a subsidy account totalling more than \$2.1 billion. In other words, the U.S. share is less than 5 percent of the total. This will support total lending of approximately \$7 billion to almost 80 eligible countries. These are countries that simply cannot afford the market-based rates of normal Fund lending. Most of the present arrears situation in the IMF stems from loans made before there was an ESAF to countries that could not afford traditional Fund terms. These loans are in support of fundamental economic reform programs of the sort that are showing positive results around the world. In my view this is not only a good investment but a very modest one considering the contributions by other governments more hard-pressed than we are on the financial front.

Thank you.

Senator SARBANES. Mr. Rich, you suggest moving away from multilateral institutions toward some other new structures.

Mr. RICH. I suggest at least considering it and examining it more.

Senator SARBANES. How would you get the leveraging that we get now out of the multilaterals? On the one hand, multilateral aid is a problem here in the Congress because we do not have the control people would like to have.

On the other hand, we do multiply significantly what the institution can do since we put in only a share of what is available to them. If we in fact play a lead role—we have tended not to do that because we are running arrearages right now—we can leverage our aid significantly.

So we are not the most responsible party there. Mr. Summers talked about an incredible leveraging, 23 to 1, which is pretty significant.

Mr. RICH. Well, if I may respond that that is very true and that is one of the strongest arguments indeed for contributions to the multilateral banks as opposed to bilateral programs.

I think one has to examine for what are we leveraging and what is the effect of leverage money. If it is promoting unsustainable programs or programs that are not very suitable for the borrowing countries, then obviously the leverage works in reverse.

Senator SARBANES. Do you think that is because our people there have not been forceful enough or because other members are not responding? What do you perceive the problem to be?

Mr. RICH. I think it is linked with the nature of the institutions. I mentioned it a bit and Tom Dawson has gone into a bit more detail.

In the absence of a majority of the board—really the ten richest and industrialized countries control about 51 or 52 percent of the votes in the World Bank's board—there is a kind of power vacuum. The bureaucracy runs on auto pilot.

So that is part of the problem. I think that this administration in particular has strengthened—have been going on for a number of years to promote these reforms, but the U.S. cannot do it alone.

So I think one specific concrete recommendation that we, I think, perhaps all share is that through the G-7 and OECD, the U.S. needs to be doing more diplomatically to push these things. And

certainly after the Rio Earth Summit, there should be more willingness.

The last point on the leverage, a lot of people view just the absolute amounts of money that are moved to developing countries as an a priori positive thing, and I would observe—well, it is not just that we have to make sure it is wisely used, but much of the project lending of the multilateral banks—and their charters do require them to lend mainly for projects—has over the past decade or so really been used for balance of payment support in the absence of greater debt relief, in the absence of fairer trade for the developing countries for them to remedy their economic situation by exporting more into the industrialized countries.

So my suggestion would be, if you want to get to the heart of this problem, the answer to the macro-economic imbalances in the economies of developing countries can never be filled by more multilateral lending.

It is a bottomless hole. I think what we need is an enhanced debt relief through adoption of the Trinidad terms and also a fairer trade deal for the exports of developing countries.

I think that the current approach is totally counterproductive. We are lending more to these countries, they build up more debt.

The loans tend to go for the biggest projects, which are often environmentally unsustainable and socially disruptive. So I think those are some of the answers I would give you in response to the leveraging question.

Senator SARBANES. Did anyone else want to comment on this?

Mr. REED. A number of points: I believe that there is an absolute complementarity between the multilateral and bilateral assistance.

I think it is important to understand that bilateral assistance is most effective most frequently in addressing particular problems in individual countries.

Whereas multilateral lending, because of its size, because of its ability to leverage other funds, can create macroeconomic and central conditions in which that small investment of a bilateral fund can have an impact.

I think to pit one against the other is a false dichotomy. They both have a role to play and are both essential at this point.

I think there has to be greater identification of the strengths and weaknesses of the World Bank and the other regional banks at this time, and I personally believe that they have a role to play in correcting the major economic distortions that exist in many developing countries and less of a role to play in terms of project lending.

I was rather disturbed to hear the World Bank moving toward microlevel investments. I think this is a competitive weakness, quite frankly. It should be looking to other partnerships or other institutions, particularly local institutions, to carry out that kind of activity, but not to embrace and take on that function itself.

Senator SARBANES. Mr. Dawson.

Mr. DAWSON. I think the various bilateral and multilateral institutions have their various comparative advantages, and there is a seamless between and among them.

I think as a practical matter, as has come up a couple times earlier, we are having competition for very short, scarce public funds, and I think it is unrealistic to truly expect that we can have any

increases in any particular areas. So the changes, unfortunately in my view, are going to be on the margin.

The institutions do—I think Bruce is right. There is this sort of lending concept, particularly in the development banks. They have a concept of sustainable lending levels, which implies growth. That may or may not. I do not think that is necessarily the right way for an organization to have its incentives to work.

But I would go back to a point I made that flows are going to be from the private sector for most of what we called earlier the middle income countries. The targeting that I would argue is targeting for the lower income countries.

That is where the public sector funds are much more likely to be better employed. I read in the newspaper the other day that a consortium of telephone companies just paid \$2.2 billion for a 25-per-cent entry in the Peruvian telephone system.

I can tell you, there is a lot of money out there ready to go into good private sector projects, and I think the public money should be focused on the cases where there are market failures or very low income countries where you cannot expect the private funds to go in without some sort of assistance.

Senator SARBANES. Senator Kassebaum.

Senator KASSEBAUM. I would like to start first just with the IMF a moment and draw on your experience, Mr. Dawson, with the IMF. Whether it is an accurate accusation or not, there are many countries, particularly developing countries, that when they get into trouble, blame it on the strict requirements of the IMF.

I have seen this happen in Zambia and elsewhere. I know myself, as I have looked at individual countries, wondering if the IMF was so strict in their requirements that indeed they were throwing the country into obviously a ripe position for a coup.

And then, too, you mentioned Russia. As you know, there have been many critics that it is the IMF policy with Russia that has caused some problems. I am not sure that I accept that particular criticism, but I would like to just hear your thoughts on IMF guidelines and what, if ever, there should be some flexibility.

Mr. DAWSON. The Fund has, as one of its principles, what they call now the case-by-case basis. Clearly, that sort of lingo, Fund-speak that I call it, has been developed because of just exactly those sorts of criticisms in the past. Blaming it on the IMF, I think, is less of a parlor sport in the developing world than it used to be.

I think part of the issues in the past has been there has been political or public posturing. Oftentimes, the finance ministries or the central banks want exactly what the IMF says, and indeed the IMF serves a public role, in a sense, as a foil and a fall guy or fall institution for that.

I think there have been cases in the past where the institution was, in some sense of the word, too harsh. I think management recognizes that.

I mean, the fund is a very pragmatic organization in the sense that it exists, not as much as the World Bank does, but it does exist to lend money.

It exists to get its money repaid, and it exists to have its funds work. So I think it has over the years developed, shall we say, a more pragmatic approach toward its activities.

Part of the problem, particularly in Zambia, which would be an excellent example of that one, is that earlier the lending terms for many of these countries were quite simply inappropriate, and the establishment of the Enhanced Structural Adjustment Facility and now the proposal for a successor facility I think are an attempt to tailor the terms to the sort of conditions that the countries can afford to pay back.

A point made in my prepared statement also is that frankly in some of the countries where the fund has gotten in trouble in the sense of not getting paid back and so on, these have been cases where the United States and other major countries, on a bilateral basis, pressured the Fund to make loans to the countries where, at least in my opinion, the conditions were not right. There was not the commitment to reform that I referred to earlier. There was a high risk level earlier.

I will just cite now, since it is not a country with whom we have any decent relations at all, to put an understatement, but the Sudan, where we encouraged the institutions in the early 1980's—and I was at the Treasury at the time, and I bear part of the blame, but I do not think I have the liability—where we did in fact wind up encouraging the institutions to put money in and request terms, as it were, that were not going to be met.

So I think the institution has been sensitive to the criticism in that regard and has tried to respond. But ultimately, I think it does have its own ideology, as it were, which is that it is oriented toward market-oriented economic reforms that do work and economic programs that, to use the phrase in a slightly different context than earlier, are sustainable, because the purpose of the fund is for countries not to continue borrowing.

I would just, as a quick example, three years ago, India was in deep trouble because, in the wake of the Gulf crisis, they had lost some of their markets, had higher prices for oil to pay.

India had no foreign exchange reserves essentially available. The Fund stepped in, lent I think probably on the order of \$2 to \$2.5 billion over the year and a half or so, and I just read a couple of days ago that the foreign exchange reserves of India now are \$13 billion, and India has announced an intention to pay the fund back early.

Those are exactly the kinds of situations that I think the institution was set up to handle, and India has paid it back. The problems with the poorest countries are more intractable, and that is why we need, frankly, a more flexible approach of the sort I indicated.

Senator KASSEBAUM. Let me just touch the environmental side of this. I certainly think—Mr. Rich, you are right, and I think everybody sort of touched on it—the importance of coordination.

We might undertake some major environmental focus, but if our prosperous allies in the G-7 or OECD are not, then not much is accomplished.

I would point to your suggestion Mr. Reed. I do not know whether I think it would work, but I think we have to find something.

An example is Nigeria, a country that had wealth, had a great deal of wealth in the late 1970's, early 1980's because of oil, and squandered it. Some of our own policies, particularly Pub. L. 480 programs that brought people from the countryside into Lagos. The

Kaplan article regarding the approaching anarchy, which one hates to think of it in those dire terms, talks about Lagos and the problems there. With some coordination, these problems potentially could have avoided it, as you consider food, agriculture, environment, loans.

I do not know if there is an answer to this. It is not an easy one, and we cannot solve it here in two minutes.

But I think that there are so many examples, if you work through them, maybe it would give us a clue to what we should look forward to.

Mr. REED. Could I respond? I absolutely agree. I think that particularly on questions of macroeconomic policy, that these institutions can play a very vital role.

I am very concerned, however, if we could take the case of Zambia, about the role of the IMF, for instance in the stabilization activities. This country is in the process of transition from a copper-based economy to one that is going to be based on the export of nontraditional agricultural products.

At the same time, the IMF has required a draconian reduction in its fiscal expenditures, as is appropriate, but over one-third of the country on which this deurbanization process is going to be taking place, will no longer have a system to help manage it. Deurbanization on a third of the country with no resources to manage it.

And this is because I believe the IMF, in particular, has the—it is very pragmatic, I certainly agree, but it also has a very real blind spot. Its authorization prevents it from engaging in environmental issues and sustainability issues.

And I believe in looking at macro issues and in coming up with a comprehensive agenda, this government can send a message, hopefully in coordination with the allies, how to improve that performance on the country-level, macroeconomic level.

Mr. RICH. One suggestion, if I might add, we have an opportunity this year with the authorization for the ESAF and legislation that has been on the books once in 1989 and strengthened in 1992 pushing the U.S. executive directors to promote greater attention to environmental poverty issues, the fund.

So this might be a good occasion to attach some strings to that ESAF authorization, or at least some more directives to the U.S. Treasury Department to make it a higher priority, to coordinate with our allies, to get the fund moving more vigorously in this direction.

Mr. DAWSON. I am not up to date on the Zambian situation, but I think I can say fairly confidently that the Zambian program at the Fund, because of the nature of the relationship of the Fund, is required to be a joint program with the World Bank.

I mean, there is a requirement for countries at the level of development of Zambia that whatever program the Fund has is a joint bank-Fund program that is supposed to be designed to incorporate environmental and other such concerns into it.

So while I do not rule out the fact that the question could be and should be addressed to the Fund in this case, there is a mechanism that has been designed—maybe it isn't working—that is supposed to make sure that the Fund's approach is one that is integrated

with the bank, so that the full range of these considerations are taken into account.

It is what is called a policy framework paper, which is supposed to be the approach—I have not forgotten all the acronyms yet—that is supposed to be the approach for countries just like Zambia.

Maybe it isn't working, and I think it is a perfectly reasonable question for the committee to ask my successor and friend, Ms. Lissakers.

Mr. REED. Having studied that PFP, I can tell you that it does not include the environmental dimension.

Senator KASSEBAUM. Well, even the dimensions it includes, is it working?

Mr. REED. Well, it is actually in the early stages of restructure, so it is hard to say. But the whole concept of the restructure I think is fault in thought, and I think that is what we want to get to, try to correct from the very beginning.

Senator KASSEBAUM. Thank you very much.

Senator SARBANES. Well, we thank this panel very much. You have been very helpful.

We will leave the record open for any questions that other members of the committee may want to submit.

And we are very appreciative to all of the witnesses who came today.

The hearing stands adjourned.

[Whereupon, at 5:17 p.m., the hearing was adjourned, to reconvene subject to the call of the Chair.]

APPENDIX

RESPONSES OF RICHARD M. MOOSE AND J. BRIAN ATWOOD TO QUESTIONS ASKED BY SENATOR PELL

MISSION CLOSURE

Question. USAID has announced that it will close 21 missions over the next three years. While I commend your efforts to focus USAID's limited resources, I would like to learn more about how the mission closure process will be handled. As you know, some of the countries targeted for closure have important roles in USAID's global initiatives, such as biodiversity (e.g., Cameroon, Papua New Guinea, Zaire) and population (e.g., Thailand, Pakistan).

(a) Does USAID intend to keep a presence in countries that may meet some of the criteria for mission closure, but are important in meeting broader policy goals? If so, how, if at all, will the programs be continued in countries in which the USAID mission is closed?

(b) Will programs be funded through the regional program offices in Washington or through missions in neighboring countries? If it is a mixture, how will that decision be made?

(c) Will private voluntary organizations (PVOs) continue to receive funding for programs in countries in which USAID has closed its mission if it is important to meet one of USAID's global goals? How will USAID handle situations in which a country slated for mission closure has projects funded beyond the closure date?

Answer. (a) USAID intends to transfer all U.S. direct-hire personnel out of the countries in which missions and offices will be closed. We intend to do this by the announced dates, which range from the end of FY 1994 to the end of FY 1996. The only exceptions will be Cote d'Ivoire and Thailand, where we will continue to maintain USAID staff supporting regional offices. We accept that there are strong arguments for maintaining some type of program in many of the countries slated for closure. Important global problems may be one example. However, our hope is to minimize the number of activities operating in "close-out" countries. Where there are compelling reasons for maintaining a program, it will be implemented by either a private voluntary organization (PVO), or some arrangement that does not rely on a direct-hire presence. One of the criteria for continuing any activity in a close-out country will be the strength and management capacity of the proposed implementing organization.

(b) The funding source for any continuing program will either be geographic regional funds or other central resources, such as USAID's Bureau for Global Programs or the Bureau for Humanitarian Response. Funds allocated to a bilateral mission in one country will not be used to fund a project in a close-out country.

(c) As noted, when there are compelling reasons for implementing a project activity in a close-out country, PVOs are one option. Regarding USAID-funded projects which will extend beyond the closing date, we are looking at these on a case-by-case basis. As we close projects down, we seek to avoid "white elephants." We want to leave behind a useful and sustainable product.

RESPONSES OF J. BRIAN ATWOOD TO QUESTIONS ASKED BY SENATOR MURKOWSKI

MICROENTERPRISE

Question. The Grameen Bank in Bangladesh is an example of what can be realistically achieved by microenterprise programs. Dr. Yunus, the founder and head of Grameen, spoke at a World Bank conference on hunger:

"Studies done on Grameen tell us that the borrowers have improved their income, widened their asset base, moved steadily towards crossing the poverty line and towards a life of dignity and honor. Studies also tell us that nutrition levels in Grameen families is better than in non-Grameen fami-

lies, child mortality is lower in Grameen families than in non-Grameen families, adoption of family-planning practices is higher in Grameen families than in non-Grameen families. All studies confirm the visible empowerment of women."

There is a growing ground swell of bi-partisan support for microenterprise in both the Senate and the House. Will you support a microenterprise fund to help ensure that USAID's microenterprise programs more effectively reach the poor? Will your budget reflect microenterprise as an agency priority?

Answer. Both President Clinton and I have met with Dr. Yunus, and we are happy to count ourselves, along with many Members of Congress, as strong supporters of the Grameen Bank and its poverty-reducing program. Consistent with this view, I recently approved a new USAID microenterprise initiative, developed with the cooperation of the U.S. PVO community, that will raise the priority of microenterprise development in USAID's sustainable development program. This initiative, combined with the unequivocal emphasis we are giving to microenterprise development in USAID's new Economic Growth and Participatory Development strategies, will provide new incentives and procedures to both USAID missions and the central program to invest both dollar and mission-programmed local currencies in this important developmental sector.

We strongly believe that USAID's microenterprise programs will effectively achieve their objectives and reach the poor if oversight, accountability, and primary funding responsibility are vested in our offices located in the field. Our experience shows us that such a bottom-up, demand-driven approach nearly always leads to better performance and measurable outcomes than approaches that are driven in a top-down fashion from the center.

As I explained to Senator Dodd, USAID resources devoted to microenterprise development will increase from an estimated FY 1993 level of \$80 million to approximately \$130 million in FY 1993 AND \$140 million in FY 1994. This administration is also firmly committed to increasing the share of resources devoted to the very poor. We are working closely with the nongovernmental organizations (NGO) community to develop acceptable indicators of poverty lending and to establish benchmarks to assess performance toward achieving this goal.

RESPONSES OF J. BRIAN ATWOOD TO QUESTIONS ASKED BY SENATOR DODD

MICROENTERPRISE

Question. In a series of public events both on Capitol Hill and at the White House, you announced that microenterprise "would be a centerpiece of the foreign aid package."

President Clinton is on record supporting microenterprise programs modeled after the Grameen Bank in Bangladesh. He recently met with the head of that bank and reiterated his commitment to this program.

In addition, 60 members of the House of Representatives signed a letter circulated by the Women's Caucus supporting the microenterprise provisions placed in both the House and Senate version of last year's foreign aid bill. The provisions call for the creation of a microenterprise fund within USAID.

This language was crafted by the over 25 PVOs that implement these programs representing 4 million borrowers. These same practitioners estimate that they can make a million loans with a \$100 million fund compared to the 67,000 loans made by USAID with \$120 million using its current structure.

Not only was this program not placed in your bill, but we understand that USAID's "new microenterprise initiative" which you unveiled in House hearings last week does not call for the creation of a Microenterprise Fund. We also understand that this new initiative will be financed at less than a quarter of USAID's current microenterprise funding. Could you explain this apparent contradiction?

Answer. I do not believe there is a contradiction. Microenterprise is a centerpiece in USAID's new program. I have signed a document launching a new microenterprise initiative—developed with the cooperation of the U.S. PVO community—and have assured that microenterprise development is featured prominently in USAID's new Economic Growth and Participatory Development strategy papers.

At the same time, the Administration has submitted a bill to restructure the foreign aid program as a whole. In this bill, we have eschewed top-down, specific program-by-program funding levels, but instead have incorporated broad authorities for USAID missions to identify the most appropriate sustainable development interventions in their host countries from among a menu of program priorities which I am setting forth. *Microenterprise development is one of these priorities.*

With this clearly enunciated policy regarding microenterprise development and the new "microenterprise innovations fund," which will provide pump-priming and matching resources for field proposals, as well as resources for U.S. and indigenous PVOs and NGOs, I believe strongly that we have established a new integrated structure of procedures and incentives which will pull microenterprise development into the mainstream of our program in ways that a purely centrally driven funding initiative never would be capable of doing. My commitment is that this mainstreaming will produce a program judged to be robust and effective, *not* on the basis merely of the financial resources allotted to it at the center, but based on the performance of the many projects and initiatives taken to provide credit, encourage savings to train people and provide technical assistance—and above all, to enhance the well-being—to women and men entrepreneurs, their businesses, and their families in USAID-assisted countries.

With respect to funding levels, I plan to increase funding for microenterprise development from the estimated FY 1993 LEVEL OF \$80 million to a target of \$130 million in FY 1994 and \$140 million in FY 1995. At the same time, I have greatly increased funding which will be available from the central bureaus. For example, I plan to double the PVO matching grant program, and I have established a transitional innovation fund of \$15 million.

RESPONSES OF J. BRIAN ATWOOD TO QUESTIONS ASKED BY SENATOR BROWN

Question. As you know, the Foreign Assistance "pipeline" of obligated but unexpended funds is significant. An amendment offered in this Committee on the foreign assistance pipeline would have shortened the allowable time to four years for unexpended balances, while permitting the President to waive the restriction for long-term construction projects or other unforeseen circumstance. Initial CBO estimates showed that this reform would save as much as a billion dollars over the next five years, but a recent CBO estimate showed the reform would cost more than \$100 million initially, with savings delayed until the end of the five-year window. What is USAID's position on the cost savings from reform of the foreign assistance pipeline?

Answer. While it is difficult to predict in advance precisely what savings may be realized from the proposed amendment, it is my understanding that my staff's review of the basis for the Congressional budget Office's revised estimates confirms that the CBO's assumptions are realistic. Based on our recent experience with implementation of the so-called M account legislation—which required all government agencies to shorten pipelines to five years—deobligating funds from slow-moving projects and shifting them to faster-moving projects had the effect of accelerating expenditures and thus increasing outlays in the short run.

UNFINISHED PROJECTS IN USAID FOREIGN ASSISTANCE PIPELINE

Question. Please detail for the Committee all unfinished projects in the foreign assistance pipeline that have balances greater than four years old, including the year the projects were initiated and any obstacles that have prevented their progress.

Answer. Given that there are some 500 to 600 projects involved, it is not possible to summarize the reasons for the balances in each of them. However, it is important to note that the Agency has instituted portfolio review procedures which require project managers to review all projects semiannually, identify stalled projects, and undertake corrective action when indicated. As a result of this process, the balances in these projects have been reviewed and justified by USAID managers and appropriate corrective actions are underway where problems have been identified.

There are valid reasons why projects often take more than four years to fully expend obligations. In fact, the typical USAID project is planned with a five-year time horizon. Development is undertaken in difficult settings, involving negotiated agreements with both contractors and foreign governments. Using technical assistance contractors often requires a long, drawn-out bidding process, which we are trying to change. Similarly, producing specialized commodities can require lengthy lead times after technical specifications are prepared and approved. Funds must be in place prior to initiating major procurements to assure that our commitments can be met. Finally, development projects must be in place long enough to achieve institutional strengthening objectives if they are to be truly sustainable.

THREE-YEAR PIPELINE LIMITATION

Question. If the pipeline were to be reduced to three years, with a similar presidential waiver permitted, what savings would be realized? Please list projects affected.

Answer. Just as it is impossible to predict the savings from the amendment proposing a four-year limit on expenditures, neither can we do so for a three-year limit. It is likely, as CBO estimated for the four-year limit, that project managers would react to a shorter expenditure limit by deobligating funds and reobligating them into quicker-spending activities, thereby increasing outlays in the short run. A shorter limitation on pipelines also would necessitate more frequent obligations, increasing the administrative work, and the concomitant cost, of implementing our programs. The net effect would be to stretch our administrative capacities without providing a significant management benefit or increasing program effectiveness.

Another concern is that with shortened availability of funds, the nature of the programs would have to change to more quickly disbursing cash grants. Cash programs can be effective where there is a critical need for immediate foreign exchange or to more quickly encourage policy reforms, but this would also tend to exclude the transfer of American goods and expertise to developing countries and also lessen the likelihood of their continued use once a development activity has been completed. To overcome this tendency, more controls would have to be instituted, thereby stretching our administrative capacity in another direction, again with no increase in program effectiveness or net benefit to the taxpayer.

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